**Tubos Reunidos, S.A.**
**and subsidiaries**

Audit Report,
Consolidated Annual Accounts at 31 December 2017
and Consolidated Management Report for 2017

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

# *Independent auditor's report on the consolidated annual accounts*

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

## *Report on the consolidated annual accounts*

### *Opinion*

We have audited the consolidated annual accounts of Tubos Reunidos, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

### *Basis for opinion*

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

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

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

## *Material uncertainty relating to going concern*

We draw attention to Note 3.1.c to the accompanying consolidated annual accounts that indicates that the Group has incurred net losses amounting to €34.0 million during the year ended 31 December 2017 and that at that date, the Group's current liabilities exceeded current assets by €3.8 million. In addition, as indicated in Note 6.c, the business and cash generation plan for 2018 envisages a series of measures that are currently under way in order to deliver on the transforma 360° plan started up by Group management, and that along with the intention to roll out an integrated labour plan that mainly envisages measures to contain and reduce staff costs, the performance of the euro-dollar exchange rate and raw material costs are key variables in the generation of cash flows for the coming year. In this respect, significant deviations in the measures and key plan assumptions and the potential non-compliance with a financial ratio at 31 December 2018 described in Note 20 to the consolidated annual accounts could give rise to liquidity pressures affecting the Group's ability to meet its debt commitments in 2018 and early 2019 and, therefore, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## *Key audit matters*

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

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

| Key audit matters | How the matters were addressed in the audit |
|---|---|
| *Recoverability of property, plant and equipment and intangible assets* | |
| The Group's non-current assets account for a substantial part of its total net assets (notes 6 and 7 to the accompanying consolidated annual accounts). The recoverability of property, plant and equipment and intangible assets depends on the future cash flows generated by the Group and there is the risk that if these flows do not meet Management's expectations, this could trigger an impairment loss on such assets. Given the relevance of these assets, the significant judgements required and the Group's loss-making position, their recoverability is a key audit matter.<br><br>In line with the requirements of applicable accounting regulations, the Group assesses annually whether there are indications of impairment in respect of these assets and if so, carries out tests on the recoverability of the amounts recognised on the consolidated balance sheet. | Firstly, we updated our understanding of the internal process used to assess impairment by the parent company's Management, verifying the consistency of the calculation criteria applied with the methodology of value in use established in the applicable regulations. As part of this procedure, we were able to satisfy ourselves of the appropriate identification by Management of cash generating units (CGUs) as an essential part of this process.<br><br>With respect to cash flows, we verified that the calculations made are based on the strategic plan approved by the parent company's directors and we analysed the key assumptions used to assess future growth rates and forecast margins and verified them using available comparables (historical results, sector margins and market development forecasts) and were therefore able to conclude on their reasonableness. |

| Key audit matters | How the matters were addressed in the audit |
|---|---|
| Such impairment testing is based mainly on estimated cash flows of the cash generating units (CGUs) to which the assets analysed relate and therefore require the parent company's Management and directors to use judgements and significant estimates. These estimates include, among other things, expectations in term of future sales and margins, growth rate projections and the estimation of the discount rates to calculate the present value of the flows.<br><br>Significant deviations in these indices and their estimation give rise to important variations in the calculations made. The most important assumptions used by the Group in its analysis are summarised in Note 6 to the accompanying consolidated annual accounts.<br><br>As a result of that analysis, Group management has concluded that the recoverable value of the assets of the CGUs analysed is higher than the carrying amount recognised in the consolidated annual accounts and there is therefore no need to recognise any impairment loss in consolidated results for 2017. | Additionally, in order to estimate the level of coverage represented by the results of the analyses prepared by the Group with respect to the value of assets to be recovered, we reviewed the sensitivity tests performed by Group management in relation to these projections. These tests included:<br><br>• Reduction of up to 10% in projected profits.<br><br>• Reduction in projected growth of 0.5% and increase in the discount rate of 1%.<br><br>Thanks to these sensitivity analyses, we verified that the negative variations that would be required to trigger impairment of property, plant and equipment and intangible assets, would call for a significant adverse change which is not deemed reasonably possible in the current environment and we therefore consider that Group management's estimates and conclusions are consistent with the information that is currently available.<br><br>Similarly, we reviewed that the most significant information concerning this analysis has been included in note 6 to the consolidated annual accounts. |
| *Recoverability of deferred tax assets* | |
| The Group recognises an amount of €51.5 million in deferred tax assets (notes 2.19 and 21 to the accompanying consolidated annual accounts). Recognition of a deferred tax asset on the balance sheet is permitted provided that it is probable that the relevant Group companies will have sufficient tax gains in the future against which to offset the tax losses, available tax deductions and other existing deductible temporary differences. Given the relevance of the amount to be recovered, the significant judgement required and the Group's loss-making situation, recoverability of these assets is a key audit matter.<br><br>Recovery of these deferred tax assets is analysed annually by the Group by estimating the tax bases for coming years. | Based on the business plans drawn up by Group management, we verified the key assumptions, estimates and calculations made to prepare them using historical results, sector margins and available market performance forecasts.<br><br>The analyses performed permitted us to verify that the calculations and estimates made by the Group and the conclusions reached in relation to the recognition and recovery of deferred tax assets are consistent with the current situation, with expectations of the future results of the Group and individual companies and tax planning possibilities available under current legislation. |

| Key audit matters | How the matters were addressed in the audit |
|---|---|
| Estimates of future tax bases are based on the business plans of Group companies and the planning possibilities permitted under applicable tax legislation, taking into account, moreover, the tax consolidation group to which the Group companies with deferred tax assets recognised on the balance sheet belong since in such cases the recoverability of deferred tax assets depends on the estimation of the consolidated tax base.<br><br>Therefore, the conclusion concerning the recoverability of the deferred tax assets recognised on the consolidated balance sheet at 31 December 2017 is contingent on the judgements and significant estimates of the parent company's management and directors, mainly in relation to future tax results projected based on the Group's strategic plan.<br><br>Also, the Group's loss-making position has been considered by the parent company's management and directors in the assessment of deferred tax assets. In this respect, they have considered that the loss-making situation is one-off and that the plans rolled out will enable their recoverability within a reasonable time period. They have therefore interpreted that the conditions exist to continue to recognise these amounts in assets. | Additionally, we reviewed these analyses and verified the sensitivity included by Group management in the calculation, taking into account that, even in the event of significant variations in the business plan prepared, it would still be possible to recover the amounts recognised on the consolidated balance sheet.<br><br>Similarly, we assessed the sufficiency of the information disclosed by the Group with respect to the assumptions that underpin the valuation and recognition of the deferred tax assets, included in note 21 to the accompanying consolidated annual accounts.<br><br>Taking the above into account, based on the work performed, we have been able to satisfy ourselves that Group management's estimates and conclusions in considering the recoverability of deferred tax assets are consistent with the information that is currently available. |

## *Other information: Consolidated management report*

Other information comprises only the consolidated management report for the 2017 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.

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

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

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

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) is provided in the consolidated management report and the other information contained in the consolidated management report is consistent with that of the consolidated annual accounts for the 2017 financial year, and its content and presentation and are in accordance with the applicable regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# *Report on other legal and regulatory requirements*

## *Report to the Parent company's audit committee*

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 28 February 2018.

## *Appointment period*

The General Ordinary Shareholders' Meeting held on 22 June 2017 appointed us as auditors of the Group for 2017.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of one year and we have audited the accounts continuously since the year ended 31 December 1984.

## *Services provided*

Services provided to the Group other than the audit of the accounts are indicated in note 37 to the accompanying consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Gabriel Torre Escudero (21647)

February 28, 2018

# TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

**Consolidated Annual Accounts and Consolidated Management Report for the financial year ending 31 December 2017**

**TUBOS REUNIDOS, S.A. AND SUBSIDIARIES**

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**TUBOS REUNIDOS, S.A. AND SUBSIDIARIES**

## TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017
**(In thousands of euros)**

| | | At 31 December | |
|---|---|---|---|
| **ASSETS** | **Note** | **2017** | **2016** |
| Property, plant and equipment | **6** | 345,301 | 377,111 |
| Other intangible assets | **7** | 11,750 | 12,749 |
| Property investment | **8** | 17,784 | 2,426 |
| Non-current assets | **9** | 200 | 186 |
| Deferred tax assets | **21** | 51,522 | 51,443 |
| NON-CURRENT ASSETS | | 426,557 | 443,915 |
| Inventories | **12** | 95,234 | 101,921 |
| Clients and others accounts receivable | **9/11** | 22,123 | 17,741 |
| Derivative financial instruments | **9/10** | 402 | - |
| Other current financial assets | **9** | 1,997 | 520 |
| Other current assets | | 283 | 237 |
| Cash and cash equivalents | **9/13** | 16,999 | 7,620 |
| CURRENT ASSETS | | 137,038 | 128,039 |
| NON-TRANSFERABLE GROUP ASSETS CLASSIFIED AS HELD FOR SALE | **14** | - | 7,025 |
| **TOTAL ASSETS** | | **563,595** | **578,979** |
| | | | |
| **LIABILITIES AND NET EQUITY** | | | |
| Share capital | **15** | 17,468 | 17,468 |
| Share issuance premium | **15** | 387 | 387 |
| Other reserves | **16** | 48,924 | 48,924 |
| Retained earnings | **16** | 78,306 | 110,733 |
| Accumulative difference in exchange rate | | (2,037) | 1,700 |
| Less: Treasury shares | **15** | (1,002) | (937) |
| EQUITY ATTRIBUTABLE TO EQUITY INSTRUMENTS HOLDERS OF THE PARENT COMPANY | | 142,046 | 178,275 |
| Minority interests | **17** | 2,068 | 3,668 |
| **TOTAL EQUITY** | | 144,114 | 181,943 |
| DEFFERED INCOME | **18** | 13,114 | 13,865 |
| External funds | **9/20** | 211,951 | 149,055 |
| Deferred tax liabilities | **21** | 23,776 | 26,156 |
| Derivative financial instruments | **10** | 351 | 61 |
| Other non-current assets | **9/19** | 27,566 | 33,155 |
| Provisions | **22** | 1,932 | 1,916 |
| NON-CURRENT LIABILITIES | | 265,576 | 210,343 |
| External funds | **9/20** | 26,731 | 59,870 |
| Suppliers and other accounts payable | **9/19** | 111,622 | 103,286 |
| Derivative financial instruments | **9/10** | - | 1,044 |
| Provisions | **22** | 2,438 | 4,003 |
| CURRENT LIABILITIES | | 140,791 | 168,203 |
| LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE | **14** | - | 4,625 |
| TOTAL LIABILITIES | | 419,481 | 397,036 |
| **TOTAL LIABILITIES AND NET EQUITY** | | **563,595** | **578,979** |

**Notes 1 to 38 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 2017
### (In thousands of euros)

| | Note | Financial year ended at 31 December 2017 | 2016 |
|---|---|---|---|
| Net sales | **23** | 312,521 | 194,928 |
| Other income | **24** | 6,559 | 6,495 |
| Change in inventories of finished goods and work in progress | **12** | (4,756) | (450) |
| Supplies | **12** | (136,867) | (90,842) |
| Expenses for employee benefits | **25** | (93,884) | (86,096) |
| Depreciation and amortisation | **6/7/8** | (27,755) | (24,191) |
| Other expenses | **26** | (74,148) | (62,840) |
| Other income / net (losses) | **27** | 2,363 | 8,137 |
| Negative difference in business combinations | **28** | - | 12,223 |
| OPERATING PROFIT / (LOSS) | | (15,967) | (42,636) |
| Financial income | **29** | 76 | 88 |
| Financial expenses | **29** | (13,793) | (7,294) |
| Exchange differences (net) | **29** | (2,591) | 409 |
| FINANCIAL RESULT | | (16,308) | (6,797) |
| PROFIT/ (LOSS) BEFORE TAXES FROM ONGOING OPERATIONS | | (32,275) | (49,433) |
| Income tax expense | **30** | 1,847 | 732 |
| PROFIT/ (LOSS) FOR THE YEAR AFTER TAXES FROM ONGOING OPERATIONS | | (30,428) | (48,701) |
| INCOME AFTER TAXES FROM DISCONTINUED OPERATIONS | **14** | (3,569) | (2,536) |
| PROFIT/ (LOSS) OF THE YEAR | | (33,997) | (51,237) |
| Minority interests - profit / (loss) | **17** | (1,600) | (1,063) |
| **EARNINGS ATTRIBUTABLE TO EQUITY INSTRUMENTS HOLDERS OF THE PARENT COMPANY** | | **(32,397)** | **(50,174)** |

| | Note | Financial year ended at 31 December 2017 | 2016 |
|---|---|---|---|
| Earnings/Losses per share of ongoing operations and discontinued operations attributable to the owners of the parent company (expressed in euros per share) | **31** | | |
| **Basic earnings per share:** | | | |
| - From ongoing operations | | (0.166) | (0.273) |
| - From discontinued operations | | (0.020) | (0.015) |
| | | (0.186) | (0.288) |
| **Diluted earnings per share:** | | | |
| - From ongoing operations | | (0.166) | (0.273) |
| - From discontinued operations | | (0.020) | (0.015) |
| | | (0.186) | (0.288) |

**Notes 1 to 38 of the consolidated report are an integral part of these consolidated annual accounts**

## TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED ON 31 DECEMBER 2017
**(In thousands of euros)**

| | Financial year ended at 31 December | |
|---|---|---|
| | **2017** | **2016** |
| **PROFIT FOR THE PERIOD** | **(33,997)** | **(51,237)** |
| OTHER COMPREHENSIVE RESULTS | | |
| **Items that can subsequently be classified as results** | | |
| Foreign exchange differences | (3,737) | 1,394 |
| Cash flow hedging (Note 10) | (30) | (8) |
| **TOTAL COMPREHENSIVE RESULTS FOR THE FINANCIAL YEAR** | **(37,764)** | **(49,851)** |
| Attributable to: | | |
| - Shareholders of the Parent Company | (36,164) | (48,680) |
| - Minority interests | (1,600) | (1,171) |
| | **(37,764)** | **(49,851)** |
| Total comprehensive results for the financial year attributable to Shareholders of the Parent Company | | |
| - Ongoing operations | (32,595) | (46,099) |
| - Discontinued operations | (3,569) | (2,581) |
| | **(36,164)** | **(48,680)** |

**Notes 1 to 38 of the consolidated report are an integral part of these consolidated annual accounts**

## TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED ON 31 DECEMBER 2017
## (In thousands of euros)

| | Attributable to the shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital (Note 15)** | **Treasury shares (Note 15)** | **Share issuance premium (Note 15)** | **Other reserves (Note 16)** | **Accumulative difference in exchange rate** | **Retained earnings (Note 16)** | **Minority earnings (Note 17)** | **Total net equity** |
| **Balance at 31 December 2015** | 17,468 | (1,026) | 387 | 48,924 | 401 | 160,915 | 17,106 | 244,175 |
| Total comprehensive income 2016 | - | - | - | - | 1,502 | (50,182) | (1,171) | (49,851) |
| Operations with treasury shares (Note 15) | - | 89 | - | - | - | - | - | 89 |
| Variations in the scope of consolidation (Note 14) | - | - | - | - | (203) | - | (12,267) | (12,470) |
| **Balance at 31 December 2016** | 17,468 | (937) | 387 | 48,924 | 1,700 | 110,733 | 3,668 | 181,943 |
| Total comprehensive income 2017 | - | - | - | - | (3,737) | (32,427) | (1,600) | (37,764) |
| Operations with treasury shares (Note 15) | - | (65) | - | - | - | - | - | (65) |
| **Balance at 31 December 2017** | 17,468 | (1,002) | 387 | 48,924 | (2,037) | 78,306 | 2,068 | 144,114 |

**Notes 1 to 38 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 2017
**(In thousands of euros)**

| | Note | Financial year ended on 31 December | |
|---|---|---|---|
| | | **2017** | **2016** |
| **Cash flow from operating activities** | | | |
| Cash generated from operations | **33** | 20,336 | 7,148 |
| Interest received | **29** | 76 | 88 |
| Interest paid | **20 and 29** | (10,375) | (6,719) |
| Net cash generated from operating activities | | 10,037 | 517 |
| **Cash flow from investment activities** | | | |
| Acquisition of property, plant and equipment | **6 and 19** | (20,388) | (27,248) |
| Proceeds from sale of tangible and intangible fixed assets. | **6 and 7** | 1,318 | 886 |
| Income from the sale of assets held for sale | **14** | - | 950 |
| Acquisition of intangible assets | **7** | (3,279) | (3,839) |
| Net withdrawals of financial assets | **9** | (1,495) | 4,802 |
| Business combination | **28** | - | (19,543) |
| Net disinvestment distribution segment | **14** | (792) | - |
| Net disinvestment automotive segment | **14** | - | 11,324 |
| Net cash used in investment activities | | (24,636) | (32,668) |
| **Cash flow from financing activities** | | | |
| Acquisition and amortisation of treasury shares | **15** | (65) | 89 |
| Additions by external funds | **20** | 212,022 | 69,214 |
| Other debts additions | **19** | - | 2,720 |
| External funds amortisation | **20** | (186,194) | (55,847) |
| Other debts amortisation | **19** | (1,660) | (4,002) |
| Grants received | | 655 | 642 |
| Net cash used in financing activities | | 24,758 | 12,816 |
| Cash and cash equivalents in foreign currency | | (780) | - |
| **Increase/ (decrease) in cash and cash equivalents** | | **9,379** | **(19,335)** |
| Cash and bank overdrafts at the beginning of the financial year | **13** | 7,620 | 26,955 |
| **Cash and bank overdrafts at the close of the financial year** | | **16,999** | **7,620** |

**Notes 1 to 38 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 2017**
**(In thousands of euros)**

## 1. General information

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

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

The relationship of the consolidated subsidiary companies, which are linked by the full consolidation method given that they all have a majority share in or control of the Company, is as follows:

**2017 Financial Year**

| Company and registered office | Activity | % | Parent company | Auditor |
|---|---|---|---|---|
| Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal [sole proprietorship]) (TRI) Almurrio (Álava) | Industrial | 100 | T.R. | PwC |
| Productos Tubulares, S.A. (Sociedad Unipersonal) (PT) Valle de Trápaga (Vizcaya) | Industrial | 100 | T.R. | PwC |
| Aplicaciones Tubulares de Andalucía, S.A. (TRANDSA) Chiclana (Cádiz) | No activity | 100 | T.R. | - |
| Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarra) | Industrial | 100 | T.R. | (**) |
| Tubos Reunidos Premium Threads, S.L. (TRPT) (*) Iruña de Oca (Álava) | Industrial | 51 | T.R. | PwC |
| Tubos Reunidos America, Inc. Houston (Texas) | Marketing | 100 | T.R. | Weaver |
| RDT, Inc. Beasley (Texas) | Industrial | 100 | Aplicaciones Tubulares, S.L. | Weaver |
| Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal [sole proprietorship]) Amurrio (Álava) | Industrial/Real Estate Operation | 100 | T.R. | (**) |
| Tubos Reunidos Comercial, S.A. Amurrio (Alava) | Marketing | 100 | T.R. | - |
| Clima, S.A.U. (CLIMA) Bilbao (Vizcaya) | Holding company | 100 | T.R. | - |
| Aplicaciones Tubulares, S.L. Bilbao (Vizcaya) | Holding | 100 | T.R. | (**) |

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

Variations in the scope of consolidation

The assets and liabilities relating to the distribution segment, a segment formed by Almacenes Metalúrgicos, S. A. (Sociedad Unipersonal [sole proprietorship]), were presented in the consolidated financial statements for 2016 as held for sale following the decision to commence the sale process adopted by the Board of Directors of the Parent Company at its meeting on 22 December 2016. On 29 March 2017, the sole proprietor of Almacenes Metalúrgicos, S. A. (Sociedad Unipersonal) signed an agreement with Almesa's management team for the sale of 100% of its share capital. The transaction took place on 29 June 2017 (Note 14).

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

On 3 November 2016, the merger by absorption took place through joining Almacenes Metalúrgicos, S.A. (Sociedad Unipersonal) as the acquiring company and Profesionales de Calefacción y Saneamiento, S.L. (Sociedad Unipersonal) as the merged company (both companies formed the distribution segment at 31 December 2015).

During the second half of 2016, the Group acquired an OCTG product manufacturing business and service in the United States through the purchase of the majority of the assets, property, contractual rights and most of the elements of the business from several companies. With the closing of the transaction, the Group incorporated the company RDT Inc. (the acquirer of the business), assigning the group company Aplicaciones Tubulares, S.L. 100% of the shares of that company. The transaction took place on 15 September 2016 (Note 28).

The assets and liabilities corresponding to the automotive segment (segment made up by the companies Industria Auxiliar Alavesa, S.A. (INAUXA), Engineering Developments for Automotive Industry, S.L. (EDAI), EDAI Technical Unit, A.I.E., Kunshan Inautek Automotive Components Co. Ltd. and Inaumex, S.A. de C.V.) were presented in the abridged consolidated interim financial statements corresponding to the period of six months ended 30 June 2016 as held for sale after the decision to initiate the sale process adopted by the Company's Board of Directors at its meeting on April 28, 2016. During the month of June 2016, the Group, along with other minority shareholders of the automotive segment, signed a binding agreement for the sale of all its shares in the companies of this segment and the conclusion of the transaction was subject to approval by competition authorities, whose decision was received on 11 July 2016, with the sale being concluded on 29 July 2016 (Note 14).

Consolidated annual accounts

The annual accounts of the Group companies included used in the consolidation process are in all cases, those related to the financial year ended 31 December for each financial year.

Annual Accounts preparation

The annual accounts for 2016 were prepared by the Board of Directors of the Parent Company on 30 March 2017, and were approved by the General Shareholders' Meeting on 22 June 2017. The 2017 annual accounts have been prepared by the Board of Directors of the Company on 27 February 2018 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 Basis of presentation

The consolidated annual accounts for the Group at 31 December 2017 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 2017 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 with changes in the results.

The preparation 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 2017 of certain International Finance Reporting Standards, the Company adapted its consolidated annual accounts to said standards. The standards that have come into force are outlined below.

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

### *2.1.1 Relationship 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 2017

**IAS 7 (Amendment) "Disclosure Initiative":**

An entity is obligated to disclose information that allows users to understand the changes in liabilities that arise from financing activities. This includes changes arising from:

- Cash flow, such as contributions and loan repayments; and
- Non-monetary changes, such as acquisitions, disposals and unrealised exchange rate differences.

Liabilities arising from financing activities are liabilities "for which cash flow was, or future cash flow will be, classified in the cash flow statement as cash flow from financing activities". It must also be stressed that the new disclosure requirements also relate to changes in financial assets (e.g. assets that cover liabilities arising from financing activities) if the cash flow of those financial assets was included, or the future cash flow will be included, in the cash flow from the financing activities.

The amendment suggests that including a reconciliation between the initial and final balances for liabilities arising from financing activities would meet the reporting requirement, although it does not set out a specific format.

These amendments apply to the financial years beginning 1 January 2017.

This amendment has been taken into account in the breakdown included in these consolidated annual accounts.

**IAS 12 (Amendment) “Recognition of deferred tax assets for unrealised losses”:**

The amendments to IAS 12 clarify when a deferred tax asset should be recognised for unrealised losses. The amendments clarify the accounting treatment of deferred tax when an asset is measured at fair value and that fair value is below the tax basis of the asset. They also clarify other aspects relating to accounting of assets for deferred tax.

These amendments apply to the financial years beginning 1 January 2017.

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

**Annual Improvements of the IFRS 2014–2016 Cycle:**

The amendments affect IFRS 12 "Disclosure of interests in other entities" and apply to annual periods beginning on or after 1 January 2017. The main amendment concerns a clarification of the scope of the standard.
This change has no significant effect on the Group's consolidated annual accounts.

b) Standards, amendments and interpretations that have not yet entered into force, but that can be adopted in advance of the financial years beginning on or after 01 January 2017

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

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

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

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

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

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

These changes will have no effect on the Group's consolidated annual accounts.

**IFRS 9 "Financial instruments"**

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

IFRS 9 is in effect for the financial years beginning 1 January 2018 onwards, although it can be adopted before then. IFRS 9 will be applied retroactively, but comparative figures will not be required to be restated. If an entity should opt to adopt IFRS 9 early, it must apply all of the requirements at the same time. The entities that apply the standard before 1 February 2015 still have the option of applying the standard in phases.

As described in Note 3.1 b) Credit risk, the Group has policies in place to ensure that virtually all sales are carried out hedging the credit risk and ensuring collection. The sales made are insured by means of a collection insurance policy with an insurance company; furthermore, in a very large percentage this risk is eliminated by means of a non-recourse factoring transaction. In the event that the insurance company does not cover the client's risk, it works with the client to obtain other types of guarantees for collection. Therefore, the Group does not have significant concentrations of credit risk, so the impact of the amendment to IFRS 9 is considered negligible.

For transactions recorded as hedges by the Group, the Group only records as hedges those that are considered to provide highly effective coverage. Therefore, no significant impact is expected from the amendment of IFRS 9.

In relation to the classification of financial instruments, taking into account the financial instruments held by the Group, no changes that could have a significant effect have been detected. Finally, during the year, as indicated in Note 20, the Group's debt was restructured. The analysis of this transaction under IFRS 9 is unchanged from those presented in these consolidated annual accounts.

**IFRS 15 "Revenue from contracts with customers":**

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

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

IFRS 15 will be effective for the financial years beginning 1 January 2018 onwards, although early adoption is permitted.

Following the analysis carried out by the Group of the impact that the standard may have on the consolidated annual accounts, it is established that once the merchandise has been delivered, the outstanding obligations are exhausted, with the sole exception of any vendor's obligation to respond for repairs and for hidden faults in the pipeline.

The object of the orders consists of the supply of piping according to the specifications provided by the customer, and there are no post-delivery obligations such as interventions in the supply, start-up, training, etc. Once the piping is delivered to the customer, the customer receives and uses it, and it is under his control, and Tubos Reunidos has the right to charge for 100% of the completed performance, having fulfilled all its performance obligations, so it can be said that the physical delivery of the pipes is equivalent to its sale.

Therefore, it has been concluded that considering the transactions and types of agreements with customers, the Group does not have any significant impact due to the application of IFRS 15.

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

The IASB has amended IFRS 15 in order to:

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

These amendments do not modify the fundamental principles of IFRS 15, but clarify some of the more complex aspects of this standard. Amendments may be relevant to a variety of entities and should take into account how management assesses the impact of IFRS 15.

These amendments shall apply to the financial years beginning 1 January 2018.

The assessment of the impacts of the entry into force of IFRS 15 is included in the previous section.

**IFRS 16 "Leases":**

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

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

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

These amendments will apply to the financial years beginning 1 January 2019. Early application is allowed if IFRS 15, "Revenue from contracts with Customers", is applied at the same time.

The Group has made an initial inventory of the operating lease agreements affected by this change, in which 65 contracts have been identified. Most of these contracts refer to the recurrent lease of computer equipment or machinery, although there are two lease contracts for industrial buildings where they develop part of their activity, these two contracts being the most significant. The estimated lease expense for these 65 inventoried contracts is approximately 1,437,000 euros. The amendment of this standard would oblige the Group to register assets amounting to approximately 10,981,000 euros, of which 8,803,000 euros correspond to the aforementioned industrial buildings. However, the Group has established that this standard will be applied prospectively.

**Annual Improvements of the IFRS 2014–2016 Cycle:**

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

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

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

No impact from these changes are anticipated.

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

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

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

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

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

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

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

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

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

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

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

The amendment is effective for the financial years beginning 1 January 2018 onwards, although early adoption is permitted.

The Group is analysing the impact that this amendment may have on the consolidated annual accounts, although it does not expect it to have a material impact.

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

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

These amendments shall apply to the financial years beginning 1 January 2018. Early adoption is permitted.

The Group has not adopted this amendment in advance and it will be considered for 2018.

**IFRIC 22 "Transactions and anticipated consideration in foreign currency":**

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

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

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

The amendment shall be effective for the financial years beginning 1 January 2018 onwards, although early adoption is permitted.

The Group has not adopted this amendment in advance and it will be considered for 2018.

**IFRS 17 "Insurance Contracts":**

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

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

No impact from these changes is anticipated.

**IFRIC 23, "Uncertainty over Income Tax Treatments"**

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

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

The Group has not adopted this interpretation in advance.

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

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

No significant impact from these changes is anticipated.

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

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

No significant impact from these changes is anticipated.

**Annual Improvements of the IFRS 2015 - 2017 Cycle**

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

- IFRS 3 "Business Combinations": A previously held interest in a joint venture is measured again when control of the business is obtained.
- IFRS 11 "Joint Arrangements": A previously held interest in a joint venture is not measured again when control of the business is obtained.
- IAS 12 "Income Taxes" All tax consequences of dividend payments are accounted for in the same way.
- IAS 23 "Borrowing Costs": Any specific loan originally made to develop a qualifying asset is considered as part of the generic loan when the asset is ready for use or sale.

No significant impact from these changes is anticipated.

### 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 subject to or has rights to obtain variable returns due to its involvement with the company invested in and has the ability to use its power over it to influence 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.

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

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

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

Any contingent consideration transferred by the Group is assigned at fair value at the acquisition date. Subsequent changes in the fair value of the contingent deemed as an asset or liability is assigned according to IAS 39 in results or as a change in other comprehensive income. The contingent consideration that is classified as net equity is not revalued and its subsequent settlement is accounted for under net equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, the amounts reported by the subsidiaries to adapt to 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 disposal of non-controlling interests are also assigned to 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 affiliate, joint venture or financial asset. In addition, any amounts previously assigned to 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 assigned to other comprehensive income are reclassified to the profit and loss account.

d) Affiliates

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

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

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

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

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

Dilution profit and losses arising on investments in affiliates are assigned to the profit and loss account.

e) Joint agreements

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

### 2.3 Financial information by segments

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.

Financial information by segment is shown in Note 5.

### 2.4 Foreign currency transactions

a) Functional currency and presentation

Items included in the annual accounts 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 Mexican automotive entity, sold in 2016, had since 1 January 2015 the US dollar as its functional currency. This change was made prospectively, in accordance with IAS 2. 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 currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations, in the case of revalued items. Profit and losses in foreign currency resulting from the settlement of these transactions and from the conversion to the closing exchange rates of assets and liabilities in foreign currency are assigned to the profit and loss account, unless deferred in other comprehensive income as qualified cash flow hedging and qualified net investment hedging. Profits and losses from exchange rate differences are presented in the consolidated profit and loss account statement on the "Exchange rate differences (net)" line.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between conversion differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Exchange rate differences related to changes in amortised cost are assigned to the profit and loss account, and other changes in value are assigned to other comprehensive income.

Exchange rate differences on non-monetary items, such as equity instruments held at fair value with changes in the results, are assigned to the profit and loss account as part of the profit or loss of fair value. Exchange rate differences on non-monetary items such as equity instruments classified as financial assets available for sale are included in other comprehensive income.

c) Group Entities

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

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

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

(iii) All resulting exchange rate differences are assigned to other comprehensive income.

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

## 2.5 Property, plant and equipment

Property, plant and equipment assets are assigned at their cost less any depreciation and accumulated impairment losses, except for land, if any, which shall be net of 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 probable 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 does not depreciate. 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 losses 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 profits / (losses)" (Note 27).

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

### 2.6 Borrowing costs

The costs for general and specific interests that are directly attributable to the acquisition, construction or production of qualifying assets, 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 charged to expenses.

### 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 licences 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 in more than one year are assigned 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, assigned as assets is amortised over its estimated useful live (4 to 8 years).

b) Research and development expenses

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

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

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

c) Trademarks and licences

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

### 2.9 Impairment losses of non-financial assets

Intangible assets that have an indefinite useful life are not subject to depreciation and are tested annually for value impairment, or more frequently in the case of 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 asset groups (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

Non-current assets (or disposal groups) are classified as assets held for sale when their value is to be recovered mainly through their sale, provided that the sale is considered highly likely. These assets are valued at the lower of the carrying amount and fair value less sale costs.

### 2.11 Financial assets

#### 2.11.1 Classification

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

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

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

b) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities over 12 months from the balance sheet date that are classified as non-current assets. Loans and accounts receivable include non-current financial assets, customers, other receivables and other current assets on the balance sheet.

#### 2.11.2 Recognition and assessment

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

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

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

When securities classified as available for sale are sold or impaired, the fair value adjustments accumulated assigned to net equity are included in the profit and loss account as "profit and loss of investment securities".

The interest of securities available for sale calculated using the effective interest rate method is assigned to the profit and loss account as part of other income. Dividends from net equity instruments available for sale are assigned to the profit and loss account as other income when the Group's right to receive such payments is established.

**2.11.3 Compensation of financial instruments**

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

**2.11.4 Impairment losses of non-financial assets**

a) Assets at amortised cost

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

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

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

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

### 2.12 Derivative financial instruments and hedging activity

Derivatives are initially assigned at fair value at the date the derivative contract is signed. After their initial recognition, they are re-assessed at fair value. The method for recognising the resulting profit or loss depends upon whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. In financial year 2015 the Group began contracting derivatives which were designated as cash flow hedges (Note 10).

At the inception of the transaction, the Group documents the relationship between the hedging instruments and the items hedged, as well as its objectives for risk management and the strategy for undertaking various hedging transactions. The Group also documents its assessment, both initially and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items.

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

a) Cash flow hedging

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are assigned to other comprehensive income. The profit or loss relating to the ineffective portion is assigned immediately in the profit and loss account under "Variation in fair value of derivatives that do not qualify as hedges".

Accumulated amounts in equity are reclassified to the profit and loss account in those periods in which the hedged item affects the results (for example, when the intended hedged sale takes place). The profit or loss on the effective portion of interest rate swaps that cover variable rate loans is assigned to the profit and loss account within "investment income / expenses". However, if the planned transaction which is hedged involves the recognition of a non-financial asset (for example, stocks or property, plant and equipment assets) profit and losses previously deferred in equity are transferred from equity and are included in the initial assessment of the cost of the asset. The deferred amounts are finally recorded in costs of goods sold, for inventory, or in amortisation, in case of property, plant and equipment assets.

When a hedging instrument matures or is sold, or when the requirements for hedge accounting are not met, any cumulative profit or loss in net equity at that time remains in equity and is assigned when the expected transaction is ultimately assigned to the profit and loss account. When the planned transaction is not expected to take place, the cumulative profit or loss in net equity is immediately transferred to the profit and loss account.

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 its disposed of in a different way of the net investment. A net investment in a foreign company is defined as the sum of the amount corresponding to the share of the company included in the consolidation of a foreign company's consolidated equity in the consolidated equity of a company abroad and any monetary item receivable or payable from a group company to that company abroad, the liquidation of which is not expected or likely to occur in the foreseeable future, excluding commercial items.

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

Part of the Group's borrowings denominated in dollars are designated as hedges of the net investment in subsidiary TR America, Inc. in the United States. The fair value of the debt at 31 December 2017 is 12,507,000 euros. The exchange loss of 1.7 million euros in 2017 arising from the translation of the debt into euros at the balance sheet date was recognised under "Accumulated exchange rate differences".

c) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting and are assigned 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 assigned immediately in the profit and loss account.

### 2.13 Inventories

a) Emission

Allowances allocated to the subsidiaries according to the National Allocation Plan (Law 1/2005 of 9 March) are recorded as inventories (2016: intangible assets), 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 (2016: intangible assets) 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.

b) <u>Other inventories</u>

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 are arranged, which hedge default by paying insurance premiums, which hedge default by paying insurance premiums are arranged.

### 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

Common 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 disposal. 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, is included in net equity attributable to Company holders.

### 2.17 Trade accounts payable

Trade payables are obligations to pay 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 liabilities.

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

### 2.18 External funds

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

External funds 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.

### 2.19 Current and deferred taxes

The parent company has filed tax returns consolidated with certain subsidiaries (Note 30).

The tax expense for the period includes current and deferred taxes. Taxes are assigned to results, except to the extent that they relate to items assigned to other comprehensive income or directly in net equity. In this case, taxes are also assigned to 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 assigned due to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated annual accounts. However, deferred taxes are not accounted for if they arise 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 probable 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.

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 probable 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 probable that the temporary difference will reverse in the future and it is expected that there will be sufficient taxable profit against which the temporary difference can be used.

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

### 2.20 Employee benefits

a) Pension obligations

In certain Group companies various pension plans are active, in all cases financed via defined contributions to external Voluntary Social Welfare Entities (EPSV). This plan includes the workers from Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.A. (Sociedad Unipersonal) (1,450 partners in 2017 and 1,426 partners in 2016) 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 assigned 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 that are not paid within twelve months from the balance sheet date are discounted to their present value.

c) Variable remuneration plans

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

d) Share-based compensation

In 2017, the Group's parent company agreed on a remuneration plan linked to the share price change for one of the Group's directors (see Note 36). This is a stock-based compensation plan and can be settled in cash or shares (in this case, it requires the director's approval). On the one hand, the Group recognises employee services received in exchange for granting the option as an expense when they are provided and, on the other hand, the corresponding increase in liabilities.

### 2.21 Provisions

Provisions for specific risks and expenses are assigned when:

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

(Ii) An outflow of funds is likely to be required to settle the obligation; and

(Iii) The amount can be estimated reliably.

No provisions for future operating losses are assigned.

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 assigned 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

Ordinary revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods sold, net of discounts, returns and value added tax. Revenue is recognised when it can be measured reliably, when it is probable that the entity will receive future economic benefit and when certain conditions for each of the Group's activities described below are achieved. The Group bases its return estimates on historical results, considering the type of customer, the type of transaction and the specific circumstances of each agreement.

a) Sales of goods

Sales of goods are recognised when a Group entity has transferred to the buyer the significant risks and rewards of ownership of property, and does not retain any involvement in the current management of the goods sold in the degree usually associated with ownership, nor does it retain effective control thereof.

b) Sales of services

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

c) Income from interest

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

d) Dividend income

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

### 2.23 Leases

Operating leases

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

### 2.24 Distribution of dividends

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

### 2.25 Environment

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

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

## 3. Management of financial risk

### 3.1 Financial risk factors

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

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

a) Market risk

(i) Exchange rate risk

The Group operates internationally and is therefore exposed to foreign exchange rate risk due to its transactions in foreign currencies, especially in the US dollar. The exchange rate risk arises from future commercial transactions and the assets and liabilities recognised.

The exchange rate risk arises when future commercial transactions or assets or liabilities recognised are denominated in a currency other than the functional currency of the entity performing the transaction. The Management team has established an exchange rate risk management policy for foreign currency against the functional currency. The exchange rate risk arises mainly from sales made in US dollars, which during financial year 2017 amounted to 189 million euros, (74 million euros in 2016 without taking into account discontinued operations) and purchases of raw materials and other supplies during 2017 which represented an expenditure of 17 million euros (16 million euros in 2016).

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

During FY 2017, the amount of these contracts amounted to 57 million US dollars (USD) (49 million US dollars in 2016). Forward foreign currency purchase and sale contracts held by the Group at 31 December 2017 are detailed in Note 10.

If in FY 2017 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 5.6 million euros (2 million euros in 2016) 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. Assets held in these companies amounted to 60 million euros at 31 December 2017 (65 million euros at 31 December 2016) and these assets are largely financed by liabilities in foreign currency.

(ii) Interest rate risk of external funds

The Group's main interest rate risk arises from the long-term debt with variable rates, which exposes the Group to cash flow interest rate risk. During 2017 and 2016 the Group's loans at variable interest are mostly denominated in euros. The Management team maintains a policy of permanent monitoring of the development of the same and on the effect of a hypothetical change in interest rates in the annual accounts of the Group.

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

The fixed financial rate debt is recorded at amortised cost. Therefore, they are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flow will fluctuate due to a change in market interest rates. At 31 December 2017 around 15% of the Group's debt is at fixed rate (13% of the debt at 31 December 2016).

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

Instruments used by the Group

Those swaps currently in place cover approximately 17.5% (9% at 31 December 2016) of the principal of variable rate loans. The contracts require the settlement of net interest receivable or payable every six months. The settlement dates coincide with the dates on which interest accrues on the underlying debt and settlement occurs on a net basis.

Sensitivity

Profit or loss is sensitive to the direct effects of a change in the rates on financial instruments subject to variable interest assigned to 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 2017, an increase/reduction of around 16% (23% in financial year 2016) on current costs and would be approximately 8% of financial expenses for 2017 (14% in 2016).

(iii) Other risks

The U.S. Department of Commerce has concluded following its investigation under Section 232 that steel imports pose a national security risk to the United States and has proposed alternatives that would include the possibility of tariffs or quotas on imports of steel products, including pipes and tubes.

However, there are uncertainties in relation to such measures by the President of the United States, and there is no decision or evidence as of the date of preparation of these consolidated annual accounts that would allow an assessment, if any, of their impact on Tubos Reunidos.

b) Credit risk

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

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

All the Group's customers have their corresponding risk rating. Upon receipt of the order the creditworthiness of each customer is analysed and risk hedging is requested from the Insurance Company. The insurance contract is concluded with Compañía Española de Seguro de Crédito a la Exportación (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 2017 the Group has written off an amount of 37,231,000 euros under various non-recourse factoring contracts (33,422,000 euros in 2016). The limit of these contracts is 56.3 million euros (55.7 million euros at 31 December 2016).

In the seamless Pipe segment, 88% of sales have been insured by CESCE (72% in 2016), with the insurance coverage being transferred by non-recourse factoring contracts to financial institutions by 49% of sales (59% in 2016), covered by customer warranties through letters of credit, 4%, (5% in 2016), with 5% charged in advance (8% in 2016) and the remaining 3% (15% in 2016) 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 coverage for commercial risk is 95% (95% in 2016) and 99% of political risk. Regarding non-recourse factoring, all of the receivables are sold, so that the Group does not retain any default risk.

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

c) Liquidity risk

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

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

**(In thousands of euros)**

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

The liquidity reserve as of 31 December 2017 and 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| **Liquidity reserve** | | |
| Cash and cash equivalents (Note 13) | 16,999 | 7,620 |
| Other current financial assets (Note 9) | 1,997 | 520 |
| Unused credit lines (Note 20) (*) | 30,749 | 55,173 |
| **Liquidity reserve** | 49,745 | 63,313 |
| | | |
| **Net outside funds** | | |
| External funds (Debts with credit institutions and other debts) (Note 20) | 238,682 | 208,925 |
| Cash and cash equivalents (Note 13) | (16,999) | (7,620) |
| Other current financial assets (Note 9) | (1,997) | (520) |
| **Net outside funds** | 219,686 | 200,785 |

(*) A total of 29,081,000 euros of this amount relates to tranche C of the syndicated loan at 31 December 2017, which must be fully repaid during the last five days of each calendar year in which the loan is outstanding.

(In thousands of euros)

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

| | Less than 1 years | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | |
| Debts to credit institutions | 26,232 | 28,312 | 183,951 | - | 238,495 |
| Other outside funds | 6,273 | 1,522 | 21,263 | 1,217 | 30,275 |
| Other accounts payable | 101,468 | 6,525 | 22,555 | 320 | 130,868 |
| **At 31 December 2016** | | | | | |
| Debts to credit institutions | 64,709 | 53,075 | 82,267 | 950 | 201,001 |
| Other outside funds | 1,753 | 2,106 | 6,071 | 16,396 | 26,326 |
| Other accounts payable | 112,467 | 7,040 | 19,006 | 9,234 | 147,747 |

In order to adapt the expected cash generation of the Group for the coming years with its debt repayment obligations, the company signed a syndicated loan (Note 20) with its main banks. This loan restructures all long-term bank loans, with the exception of the EIB loan and three loans and one credit line with two financial institutions not exceeding 3 million euros, and all short-term and long-term credit facilities. With this financing, the Group has negotiated the adaptation of loan/credit repayments to the business plan designed by the previous Group management and approved by the Group's directors.

In addition, the Group agreed with the EIB in May 2017 to adapt the repayment schedule of its long-term loan to suit the Group's expected cash flow generation taking into account the business plan mentioned above. Subsequently, an agreement was signed with the EIB in July 2017, modifying certain conditions of the original loan signed in 2013, such as the adjustment of the financial ratios to be fulfilled, fixing them on the same terms as the ratios required in the syndicated loan (Note 20).

In addition, the Group has the possibility of accessing additional financing through the issuance of obligations (non-convertible bonds) amounting to 34.5 million euros under a debt issuance programme approved during the month of December 2015 (Note 20), according to the demand for such debentures among investors.

As a result of these renegotiations, the Group's debt repayment obligations were adapted to the cash flow generation forecast by the Group in accordance with the designed plan.

In 2017 the Group's management was reorganised and a value-creation plan was put in place (the Transforma 360º Plan). The aim of the plan is to guarantee the Group's sustainability and restore competitiveness levels, bringing it closer to the best practices in the sector. In order to achieve the plan, the Group's new management proposes improvements in the area of commercial activity, increases in operational efficiency, improvements in productivity and reductions in working capital investment. The Group has already implemented some of these improvements during the second half of 2017, which generate a sustainable annual EBITDA improvement over time, and there are measures already approved for execution during 2018 and subsequent years that are expected to generate significant EBITDA improvements in the coming years. The main assumptions of the plan are disclosed in Note 6 to these consolidated annual accounts.

This plan is approved in the context of a 2017 financial year, in which losses amounting to 34 million euros have been incurred and the Group has a negative working capital of 3.8 million euros, with significant deviations from the budget for the year (materialised in the second half of the year), and the expected cash flow generation has been significantly lower than anticipated, affecting the forecasts of compliance with the terms of the financing contracts in the following years (see Note 20). The main deviations from the budget are due to the effect of the depreciation of the dollar and the upward trend in raw material purchase prices, both of which occurred in the second half of the year.

In the analysis of liquidity management carried out by the Group's General Management, the forecast is to be able to meet the debt repayment commitments in accordance with the timetable established in the current contracts. However, the business plan implemented by the Group contemplates certain hypotheses regarding the key variables of the plan on which, in the event of significant variations, major deviations could occur in the Group's cash generation forecast. The most important key variables focus on obtaining improvements in personnel costs, for which an imminent negotiation process will begin with the workers' representatives through a comprehensive labour plan for one of the subsidiaries, the euro/dollar exchange rate, the evolution of raw material prices and the achievement of other measures set in motion by the Transforma Plan, the most significant of which are those associated with efficiency measures in working capital.

Achieving the improvements in this transformation plan and labour plan, together with the evolution of the euro-dollar exchange rate and the cost of raw materials, will have a direct and very significant effect on expected cash generation during 2018. The Group's management budgeted for 2018 on the assumption that the improvements to the Transforma Plan will take place and will result in significant improvements in working capital, among others, which will allow sufficient cash flow to meet the 2018 debt and interest payments. It also considered raw material costs and euro-dollar exchange rate developments based on the best information available (as described in Note 6). Significant deviations from these assumptions could affect the budget made for 2018.

In this respect, the Group's directors and management understand that, at the date of preparation of these consolidated annual accounts, there is no reason to believe that the assumptions set forth in the plan will not be met, even though they are subject to the aforementioned uncertainties. On the basis of this assessment, these consolidated annual accounts have been prepared under the going concern principle.

d) <u>Risk of changes in commodity prices</u>

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 1.27 kg of scrap per kg of pipes sold, with an average purchase price of 261.96 euros/t in 2017 (196.58 euro/t in 2016) representing between 19.64% and 23.69% of the selling price of pipes (between 13.96% and 17.57% in 2016).

The price throughout 2017 has fluctuated between 262.50 euros/t and a minimum of 243.30 euros/t (225 euros/t - 161 euros/t in 2016).

A 1% variation in the purchase price of scrap would imply an impact between 0.19% and 0.24% (between 0.14% and 0.18% in 2016) in the selling price and 474,000 euros (290,000 euros in 2016) in the profit and loss account.

A slightly higher scrap purchase price was considered for the 2018 budget than the maximum price reached in 2017.

### 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).

(In thousands of euros)

The following table shows the assets and liabilities of the Group at fair value at 31 December 2017 and 2016:

**2017 Financial Year**

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

**2016 Financial Year**

| | Level 1 | Level 2 | Level 3 | Total 31.12.16 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Assets at fair value with changes in the results | | | | |
| - Derivative | - | - | - | - |
| **TOTAL ASSETS AT FAIR VALUE** | - | - | - | - |
| **LIABILITIES** | | | | |
| Liabilities at fair value with changes in the results | | | | |
| - Derivative | - | 1,044 | - | 1,044 |
| Derivatives used for hedging | | | | |
| - Interest rate barter transactions | - | 61 | - | 61 |
| **TOTAL LIABILITIES AT FAIR VALUE** | - | 1,105 | - | 1,105 |

The fair value of financial instruments traded in active markets is based on market prices at 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 under conditions of mutual independence.

(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 flow at the current market interest rate that is available to the Company for similar financial instruments.

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

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

### 3.3 Capital risk management

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

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

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

Leverage ratios as of 31 December 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| External funds and other liabilities (*) | 282,433 | 260,305 |
| Less: Cash and equivalents and other current financial assets | (18,996) | (8,140) |
| | 263,437 | 252,165 |
| Net equity | 144,114 | 181,943 |
| Total capital | 407,551 | 434,108 |
| Leverage ratio | 64.64% | 58.09% |

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

## 4. Accounting estimates and calculations

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

### 4.1 Significant accounting estimates

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

1. Asset impairment

In FY 2015, as described in Note 6, Group´s Management analysed the impairment of assets based on the existing business plan for the Group's different CGUs. The preparation of this business plan includes estimates relating to the development of the Group's businesses and measures of the transformation plan the Group is currently undergoing. Among said estimates are the main variables of the income statement (see Note 6). 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. Yet, the business plan includes many estimate variables that were considered both in the asset impairment analysis as well as the tax credit recovery analysis, as well as the sensitivity analyses carried out by the Management in both cases.

2. Resulting fair value in a business combination

In business combinations the Group, at the date of acquisition, classifies or designates the identifiable assets acquired and liabilities assumed as necessary and on the basis of contractual agreements, economic, financial and operating policies conditions or other relevant conditions existing at the date of acquisition so as to subsequently value the identifiable assets acquired and the liabilities assumed at their fair values at the date of acquisition.

As a result of the business combination described in Note 28, the Group's Management calculated the fair value of property, buildings and machinery based on appraisals performed by independent experts. Additionally, and as opposed to assessing fair value, an analysis of the fair value of the assets acquired using discounted cash flow was carried out. This analysis incorporates estimates with respect to future business, although the result obtained from it is similar to the appraisals after incorporating the corresponding sensitivity analysis (Note 28). This analysis led to a gross increase in value amounting to 18.4 million euros.

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 30). When the final tax result is different from the amounts initially assigned, such differences will 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 gains that enable the application of these assets. In order to determine the amount of the deferred tax assets that may be recorded, the Directors of the parent company carried out a recovery analysis of the tax credit recorded in the balance sheet based on the taxable income estimated according to the Group's strategic plan, considering an estimated period of 10 years as well as the usage limitations of said tax credits, in compliance with the current tax regulations. The plan enables the recovery of the assigned tax credits to be fairly justified (Note 21).

Although the Group companies that have the right to use these credits have recorded losses, Group management and the directors understand that this is a temporary situation, that the decisions and measures being taken by the different companies will generate profits and that the capitalised amounts will be recovered within a reasonable period of time. Therefore, the conditions are in place to hold these amounts on the asset side, which were recognised in 2015 and prior years, without recognising any additional amounts in 2016 and 2017.

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 2016 and 2017 no significant changes in repayment terms were detected.

### 4.2 Significant judgements in applying accounting policies

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

- Covenants. The Group is subject to compliance with certain financial ratios at year-end (see Note 20). The ratios agreed in all the Company's financing contracts are the same. In this sense, there is a possibility that the agreed terms for financial year 2018 may not be met under current market conditions. However, the Group's management understands that, based on the experience acquired with financial institutions and the improvements in cash generation and expected results for 2018, the waiver will be obtained prior to 31 December 2018. In any event, at 31 December 2017 the Group has complied with the CAPEX covenant required in the syndicated loan, and has not complied with the EBITDA covenant required by the EIB loan (Note 20). However, non-compliance with the latter only means that the EIB is in a position to request an IBR (Independent Business Review) from the Group. Therefore, and bearing in mind that at 31 December 2017 there was no breach of covenants entailing early repayment of the debt, considering the expectation of obtaining new waivers and the estimate of sufficient cash flow generation to meet financial commitments during 2018, with the uncertainties indicated in Note 3.1, this will allow the Group to classify long-term bank debt and to formulate the accounts under the going concern principle under current and estimated conditions.

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

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

- Density estimation of scrap metal for the physical inventory count on the volume calculation process. At year-end a physical inventory of scrap metal is carried out to estimate existing tonnes. This process is performed by calculating the volume of the existing scrap in the park. While calculating the tonnage is subject to the density of the scrap used in the volume calculation process, adjustments are performed during the financial 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.

**(In thousands of euros)**

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

## 5. Financial information by segments

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.

Currently, and following the sale of the automotive and distribution segments (sold in 2016 and 2017, respectively), Management is in the process of identifying new segments within the "Seamless Pipes" business. However, the existing operating segments were determined based on the structure of the reports examined by the aforementioned governing bodies.

Said governing bodies analyse the Group's business both geographically and in terms of products. In this way, operations are analysed from the perspective of three segments:

a) Seamless piping
b) Distribution (segment soldin the first half of FY 2017)
c) Automotive (segment sold in FY 2016)

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 2017 are as follows:

| | Seamless piping | Distribution (*) | Others | Group |
|---|---|---|---|---|
| Total gross sales for the segment | 412,454 | 8,635 | - | 421,089 |
| Inter-segment sales | (99,933) | - | - | (99,933) |
| Sales | 312,521 | 8,635 | - | 321,156 |
| EBITDA | 11,790 | (1,710) | (2) | 10,078 |
| Operating profit | (15,965) | (1,733) | (2) | (17,700) |
| Net financial costs | (16,308) | (26) | - | (16,334) |
| Profit before tax | (32,273) | (1,759) | (2) | (34,034) |
| Tax on earnings | 1,847 | - | - | 1,847 |
| Other results (Note 14) | - | (1,810) | - | (1,810) |
| External partners (Note 17) | 1,600 | - | - | 1,600 |
| Profit for the period | (28,826) | (3,569) | (2) | (32,397) |

**(In thousands of euros)**

The results by segment for the financial year ending 31 December 2016 are as follows:

| | Seamless piping | Distribution (*) | Automotive (**) | Others | Group |
|---|---|---|---|---|---|
| Total gross sales for the segment | 220,259 | 24,223 | 37,815 | - | 282,297 |
| Inter-segment sales | (25,331) | (5,830) | (4,170) | - | (35,331) |
| Sales | 194,928 | 18,393 | 33,645 | - | 246,966 |
| EBITDA | (15,512) | (2,357) | 3,180 | 24 | (14,665) |
| Operating profit | (39,703) | (5,875) | 711 | 24 | (44,843) |
| Net financial costs | (6,797) | (142) | (505) | - | (7,444) |
| Profit before tax | (46,500) | (6,017) | 206 | 24 | (52,287) |
| Tax on earnings | (7) | (1,827) | (116) | - | (1,950) |
| Other results (Note 14) | - | (952) | 3,952 | - | 3,000 |
| External partners (Note 17) | 1,108 | - | (45) | - | 1,063 |
| Profit for the period | (45,399) | (8,796) | 3,997 | 24 | (50,174) |

(*) Business segment classified as income from discontinued operations and sold during the first half of 2017. As part of the results of the distribution segment, a net amount of 2,218,000 euros (2,957,000 euros before tax) was recorded corresponding to a deterioration of the property that has been collected as a result of continuing operations.
(**) Business segment classified as income from discontinued operations and sold during 2016.

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

| | 2017 | | | 2016 | | | |
|---|---|---|---|---|---|---|---|
| | Seamless piping | Distribution | Group | Seamless piping | Distribution | Automotive | Group |
| Amortisation of property, plant and equipment (Note 6) | 24,283 | 23 | 24,306 | 21,085 | 278 | 2,231 | 23,594 |
| Amortisation of intangible assets (Note 7) | 3,308 | - | 3,308 | 2,985 | 283 | 238 | 3,506 |
| Amortisation of property investments (Note 8) | 164 | - | 164 | 121 | - | - | 121 |
| Allocation/(Reversion) for fixed asset impairment | - | - | - | - | (*) 2,957 | - | 2,957 |
| Allocation/(Reversion) (net) for impairment of inventories (Note 12) | (676) | - | (676) | (416) | 193 | - | (223) |
| (Net) impairment losses for trade receivable and commercial guarantees (Notes 11, 22 and 26) | (1,540) | - | (1,540) | (392) | (66) | - | (458) |

(*) This deterioration corresponds to industrial buildings that are being used in the distribution segment but which will not be sold in the sales process described in Note 14. In the 2016 income statement it was classified under continuing operations.

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

**(In thousands of euros)**

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

| | Seamless piping | Others | (*) Consolidation adjustments | Group |
|---|---|---|---|---|
| Total assets | 812,047 | 195 | (248,647) | 563,595 |
| Total liabilities | 648,620 | 7 | (229,146) | 419,481 |
| Investments in property, plant and equipment (Notes 6 and 7) | 18,984 | - | - | 18,984 |

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

The assets and liabilities of the segments at 31 December 2016 and the investments in property, plant and equipment during the financial year ending on that date are as follows:

| | Seamless piping | Distribution | Automotive | Others | (*) Consolidation adjustments | Group |
|---|---|---|---|---|---|---|
| Assets | 694,570 | (**) 19,552 | - | 196 | (142,364) | 571,954 |
| Assets held for sale | - | 7,025 | - | - | | 7,025 |
| Total assets | 694,570 | 26,577 | - | 196 | (142,364) | 578,979 |
| Liabilities held for sale | - | 4,625 | - | - | | 4,625 |
| Other liabilities | 508,762 | 12,777 | - | 6 | (129,134) | 392,411 |
| Investments in property, plant and equipment (Notes 6 and 7) | 25,340 | 47 | 2,846 | - | - | 28,233 |

(*) These consolidation adjustments essentially correspond to removals of commercial loans and balances between Group companies.
(**) Mainly industrial buildings of the distribution segment that will remain in the Group once the sales process described in note 14 is completed.

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

b) <u>Information on geographic areas and clients</u>

All of the Group's business segments operate in 3 main geographic areas, although they are managed globally.

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

**(In thousands of euros)**

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

| | 2017 | 2016 |
|---|---|---|
| **Sales** | | |
| Spain | 52,514 | 56,858 |
| Rest of European Union | 73,169 | 79,899 |
| United States of America | 134,667 | 37,928 |
| Rest of the World | 60,806 | 72,281 |
| Total sales | 321,156 | 246,966 |

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

| | 2017 | 2016 |
|---|---|---|
| **Sales** | | |
| Refining and petrochemical | 27,634 | 27,738 |
| Energy generation | 63,592 | 58,517 |
| Oil and gas | 153,009 | 65,359 |
| Construction, mechanical and industrial | 53,711 | 36,381 |
| Other sectors* | 23,210 | 58,971 |
| Total sales | 321,156 | 246,966 |

* Other Sectors includes the sales of the distribution and automotive segments sold off in 2017 and 2016, respectively.

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

| | 2017 | 2016 |
|---|---|---|
| **Total assets** | | |
| Spain | 504,227 | 513,753 |
| United States of America | 59,368 | 65,226 |
| Total assets | 563,595 | 578,979 |

Virtually all investments in tangible assets and other intangible assets have been made in plants located in Spain, except for those investments in the company RDT, Inc (Note 28), a U.S. business acquired in 2016.

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

**(In thousands of euros)**

## 6. Property, plant and equipment

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

**2017 Financial Year**

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

**(In thousands of euros)**

**2016 Financial Year**

| | Land and buildings | Technical installations and machinery | Other installations, tools and furniture | Under constructio n and advances | Other fixed assets | Total |
|---|---|---|---|---|---|---|
| **COSTS** | | | | | | |
| Initial balance | 186,902 | 593,679 | 31,765 | 13,547 | 27,414 | 853,307 |
| Additions | 1,354 | 12,884 | 2,582 | 4,897 | 1,948 | 23,665 |
| Business combinations (Note 28) | 10,816 | 26,007 | - | - | - | 36,823 |
| Withdrawals | (2,994) | (4,680) | (1,290) | (3) | (920) | (9,887) |
| Transfers | - | 12,764 | 373 | (13,566) | 429 | - |
| Exchange differences | 694 | 1,428 | (11) | (3) | (13) | 2,095 |
| Transfer to assets held for sale (Note 14) | (7,093) | (53,675) | (8,586) | (387) | (5,177) | (74,918) |
| Final balance | 189,679 | 588,407 | 24,833 | 4,485 | 23,681 | 831,085 |
| **AMORTISATIONS** | | | | | | |
| Initial balance | 56,614 | 403,882 | 9,119 | - | 17,100 | 486,715 |
| Allocations | 2,302 | 20,477 | 360 | - | 455 | 23,594 |
| Withdrawals | (666) | (3,934) | (186) | - | (37) | (4,823) |
| Exchange differences | - | (49) | (3) | - | (2) | (54) |
| Transfer to assets held for sale (Note 14) | (3,469) | (41,517) | (6,666) | - | (3,181) | (54,833) |
| Final balance | 54,781 | 378,859 | 2,624 | - | 14,335 | 450,599 |
| **PROVISIONS** | | | | | | |
| Initial balance | - | 500 | - | - | - | 500 |
| Allocations | 2,957 | - | - | - | - | 2,957 |
| Withdrawals | - | (82) | - | - | - | (82) |
| Final balance | 2,957 | 418 | - | - | - | 3,375 |
| **NET VALUE** | | | | | | |
| Initial | 130,288 | 189,297 | 22,646 | 13,547 | 10,314 | 366,092 |
| Final | 131,941 | 209,130 | 22,209 | 4,485 | 9,346 | 377,111 |

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

Fixed asset acquisitions in 2016 related, in the case of Tubos Reunidos Industrial, to the replacement of assets damaged in the fires that occurred in early 2016. At Productos Tubulares, major investments have been earmarked for the completionof the kinematic chain of the drilling machine. Tubos Reunidos Premium Threads (TRPT) made investments for the assembly lines, cranes and machinery necessary for the start of production activities.

a) Updates

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

b) Insurance

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

The coverage of these policies is deemed sufficient.

c) Losses due to value impairment

In accordance with IAS standard 36, the Group Management prepared the obligatory asset impairment analysis. In preparing this analysis, the Group has considered the Transforma 360º Plan designed by the current management and approved by the Group's directors.

In this plan, most of the management areas have been reviewed 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. The plan covers the 2018-2022 period, reaching EBITDA levels of approximately 20% of sales by 2020.

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 Transforma 360º Plan, in the coming days management will communicate its intention to implement a comprehensive work plan for the subsidiary PT, which provides for measures to contain and reduce staff costs, flexibility and mobility in the workplace, as well as potential workforce downsizing measures. To this end, the corresponding negotiation process will be initiated with labour representatives in the company.

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. The main challenges involve managing social challenges, managing cultural change in the organisation and implementing a process of digitisation of the Group.

These measures will enable the Group to reduce its cost structure by gaining competitiveness, differentiate itself in the market in higher value-added products and increase the services offered to customers.

The different assumptions used (expected growth, utilisation of installed production capacity, cost savings in structure, prices, changes in working capital, etc.) are projected taking into account the potential for improvement and taking as a reference the best practices in the sector but considering the improvements achievable by the Group in the current circumstances, as well as the objectives set by Group management.

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

The plan took into account the consolidation of the recovery in OCTG's geographic markets, as well as the potential recovery in project activity for the energy generation, refining and petrochemical sectors, where competition remains fierce. The growth in demand for piping for industrial and mechanical uses, which remains positive in terms of both volume and price, was also taken into account. External sources of information on the steel sector have been considered in the projections, with expected demand growth being similar to the sales growth considered in the plan. This growth in the sector corresponds to the whole seamless pipe sector, with a sub-sector, the highest in terms of value-added, expected to achieve above-average growth. Since the Group's positioning is more focused on products with higher added value and higher growth, it is expected that the Group's growth will be higher than the sector average, also taking into account recent investments in the U.S. Slight price increases are also estimated due to inflation and a modest recovery in prices from historical lows.

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 (includes the flows from the threading plant of Tubos Reunidos Premium Threads), Productos Tubulares and RDT. The projections prepared by management cover a five-year period for Tubos Reunidos Industrial and Productos Tubulares, considering the 2018-2022 business plan prepared by management, and the recoverable amount of each CGU has been determined by value in use. For RDT, the forecasts cover a period of 8 years.

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 2017 (for the homogenisation of the estimated cash flows with respect to the recoverable amount) have been considered.

<u>**Tubos Reunidos Industrial**</u>

An average revenue growth of approximately 4% is estimated (where the growth in 2018 is higher due to the execution of the Transforma Plan explained above), derived from the increase in tonnes and a higher average selling price, directing the portfolio towards higher margin products in accordance with the established Transforma Plan.

Given the high level of sales in dollars maintained by the plant, the impact of changes in the euro-dollar exchange rate is very significant. In this regard, sales prices have been projected considering the current exchange rate curve for 2018 (1 euro = 1.20 dollars).

In relation to the cost of raw materials, the forecasts call for an increase of 5% over their value at the end of 2017 (having experienced a strong increase throughout 2017).

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 this regard, the Management anticipates EBITDA increases on significant sales throughout the plan, reaching an EBITDA of 18% over sales in 2022.

Cash flow beyond the period of five years considered in the plan is extrapolated using a perpetuity growth rate estimated at 1%. The discount rate used was 7.8% after tax. The discounted terminal value represents 70% of the total valuation. The calculation method assumes a perpetual growth at an adjusted flow from 2022 onwards. The adjustments made to the calculation involve assuming an investment in fixed assets equal to their amortisation.

With this conditions in mind, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 34% of their value.

The Management team has performed a sensitivity analysis of the plan by reducing the results by 10%, with no impairment displayed in this scenario and exceeding, in this case, the present value of expected cash flow to value the CGU's net assets at 21%. In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 1%, and considering a perpetual growth rate of 0.5% with no impairment found in these scenarios. In this scenario, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 13% of their value.

Starting from the initial hypothesis, an 10.2% WACC is required to equal the present value of the estimated book value of the asset flow. Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 27% for the present value of future cash flow to equal the carrying amount of assets.

Based on the current value of the cash flow obtained, significantly higher than the book value of the assets both in the original assumptions and in the sensitivity analysis carried out, the Group Management did not recognise any value impairment.

**Productos Tubulares**

The average growth in turnover projected throughout the plan is 5.3%. Revenue improvements are being projected mainly due to an improvement in the sales mix, leading to higher value-added products whose margin is profitable for the Company.

In relation to the cost of raw materials, the forecasts call for an increase of 5% over their value at the end of 2017 (having experienced a strong increase throughout 2017).

Regarding production costs, we have considered the significant improvements stemming from the Transforma Plan, considering cost efficiency improvements and increases in production efficiency. EBITDA margin levels on sales are expected to reach approximately 26% in fiscal year 2022. The biggest improvements in the cost structure are foreseen in the area of personnel costs (considering the integral labour plan), implementing improvements in productivity, maintenance and efficiency measures in the supply chain.

Cash flow beyond the period of five years is extrapolated using a perpetuity growth rate estimated at 1%. The discount rate used was 7.8% after tax. The discounted terminal value represents 74% of the total valuation. The calculation method assumes a perpetual growth at an adjusted flow from 2022 onwards. The adjustments made to the calculation involve assuming an investment in fixed assets equal to their amortisation.

With this conditions in mind, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 56% of their value.

The Management team has performed a sensitivity analysis of the plan by reducing the results by 10%, with no impairment displayed in this scenario and exceeding, in this case, the present value of expected cash flow to value the CGU's net assets at 40%. In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 1%, and considering a perpetual growth rate of 0.25%, with no impairment found in these scenarios. In this last scenario, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 29% of their value.

Starting from the initial hypothesis, an 11.4% WACC is required to equal the present value of the estimated book value of the asset flow. Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 48% for the present value of future cash flow to equal the carrying amount of assets.

Based on the current value of the cash flow obtained, higher than the book value of the assets, both in the original assumptions and in the sensitivity analysis carried out, the Group Management did not recognise any value impairment.

**RDT**

As indicated in Note 28, 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 inherent margins higher than those of the pipe manufacturing and sales business associated with TRI's and PT's CGUs.

When completing the acquisition of this business in 2016, the Group analysed the business plan of this CGU, which is disclosed in Note 28 to these consolidated annual accounts. This plan was being implemented in the first half of 2017 without any significant deviations. Additionally, we must consider the costs associated with adapting and integrating the RDT business into the Tubos Reunidos Group.

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 after the integration of RDT's activities into the Group's businesses, and with it the impairment test of the CGU, the plan's main assumptions being as follows:

- An 8-year projection was used, calculating the residual value as perpetual income of a financial year that does not contain cyclical or seasonal information. The discounted terminal value represents 54% of the total valuation. The calculation method assumes a perpetual growth at an adjusted flow from 2025 onwards. The adjustments made to the calculation involve assuming an investment in fixed assets equal to their amortisation.
- The discount rate used (WACC) was 8.5% after tax.
- The real growth rate of terminal value is 2% above long-term inflation.

For the cash generating unit, the most important parameters are:

- Net amount of turnover: average increase of 2.7% throughout the plan.
- Margins. The Group Management has determined the budgeted EBITDA margin based on market returns taking into account the type of activity of the company, reaching at the end of the plan an EBITDA margin of 15% on turnover.
- Investments in fixed assets: no significant investments are expected in the years projected as the assets acquired in the transaction are suitable for the volume of activity covered by the plan.

No impairment is derived from the analysis of these projections.

Management has carried out a sensitivity analysis of the plan, reducing the estimated results by 10%, and no impairment was detected in this scenario. In addition, the Management team also performed an additional sensitivity analysis increasing the WACC discount rate by 1% and considering a perpetual growth rate of 0.5%, with no impairment found in these scenarios.

Moreover, as indicated in Note 28, in 2016 valuations were requested for the main assets of the RDT business that matched the value of the assets at the date of analysis when the business was acquired.

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.

d) Leases

*Financial leases*

There were no finance lease contracts at 31 December 2017 and 2016.

*Operating leases*

The income statement includes lease expenses amounting to 1,526.000 euros (2016: 1,604,000 euros, of which 126,000 euros corresponded to the distribution segment and 741,000 euros to the automotive segment), which mainly correspond to property leasing.

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

A purchase option by the Company is included in the lease, which shall be the market price determined by an expert independent of the parties when the purchase option expires. This contract was signed by a Group company whose assets and liabilities are classified as held for sale at 31 December 2016. The Group took over the contract in 2017. The distribution segment was sold off in 2017 (Note 14).

**(In thousands of euros)**

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

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

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

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

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

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

The payments made at 31 December 2017 and 2016 for the above contracts are as follows:

| | Thousands of euros | |
|---|---|---|
| | **2017** | **2016 (*)** |
| Less than 1 year | 863 | 851 |
| Between 1 and 5 years | 1,024 | 1,998 |
| | 1,887 | 2,849 |

(*) Includes payment commitments by the distribution segment amounting to 2 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:

**2017 Financial Year**

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

**2016 Financial Year**

| | Allowances | IT applications | Development expenses | Patent concessions, lic. | Other intangible assets | Total |
|---|---|---|---|---|---|---|
| **COSTS** | | | | | | |
| Initial balance | 827 | 7,803 | 17,900 | 921 | 453 | 27,904 |
| Additions | 729 | 409 | 3,254 | 7 | 169 | 4,568 |
| Business combination | - | - | - | - | 223 | 223 |
| Derecognition | (609) | (1) | - | - | - | (610) |
| Transfers | - | - | - | 52 | (52) | - |
| Exchange differences | - | (3) | (10) | - | 14 | 1 |
| Transfer to assets held for sale | - | (4,816) | (2,400) | (674) | - | (7,890) |
| Final balance | 947 | 3,392 | 18,744 | 306 | 807 | 24,196 |
| **AMORTISATIONS** | | | | | | |
| Initial balance | - | 5,380 | 6,696 | 701 | 453 | 13,230 |
| Allocations | - | 592 | 2,883 | 25 | 6 | 3,506 |
| Derecognition | - | - | - | - | - | - |
| Exchange differences | - | - | - | - | - | - |
| Transfer to assets held for sale | - | (3,446) | (1,265) | (578) | - | (5,289) |
| Final balance | - | 2,526 | 8,314 | 148 | 459 | 11,447 |
| **NET VALUE** | | | | | | |
| Initial | 827 | 2,423 | 11,204 | 220 | - | 14,674 |
| Final | 947 | 866 | 10,430 | 158 | 348 | 12,749 |

**(In thousands of euros)**

Amortisation of development costs begins when the pipes are manufactured with the new developments. At 31 December 2017, there are three projects that are not yet under way, worth a total amount of 3 million euros (at 31 December 2016 there were projects as yet not under way worth 3.8 million euros), that will start in 2018. Amortisation is carried out linearly within 5 years. All projects have estimated profits without any impairments detected.

The Group's Strategic Plan includes a number of investments to manufacture very special and higher added value Premium Products. Development projects carried out by the Group in the seamless pipe segment are directed toward larger sizes, new finishing and manufacturing steels that have previously not been produced by the Group that will compete in currently inaccessible markets.

The net book value of development costs at 31 December 2017 related to seamless pipe projects amounted to 10.2 million euros (10.4 million euros at 31 December 2015).

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:

| | Cost | Amortisations | Impairment | Net Value |
|---|---|---|---|---|
| **Initial balance at 01 January 2016** | **628** | **(216)** | **-** | **412** |
| Transfer from assets held for sale (Note 14) | 2,135 | - | - | 2,135 |
| Allocations | - | (121) | - | (121) |
| **Final balance at 31 December 2016** | **2,763** | **(337)** | **-** | **2,426** |
| Derecognition | (582) | 227 | - | (355) |
| Transfers from property, plant and equipment (Note 6) | 22,095 | (3,261) | (2,957) | 15,877 |
| Allocations | - | (164) | - | (164) |
| **Final balance at 31 December 2017** | **24,276** | **(3,535)** | **(2,957)** | **17,784** |

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

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

The agreement to sell the distribution segment (Note 14) provides that some of the properties indicated above will be leased to Almesa on a transitional basis after the sale. The main conditions of the lease contracts that Almesa continues to hold establish a term until 31 December 2017, with the possibility of automatic renewal if the parties do not declare otherwise with one month's notice. The market lease rates for each building include price increases linked to the CPI. In any case, these lease agreements are transitional until the transfer of Almesa's business to other locations. At 31 December 2017, Almesa continues to lease 4 buildings from the Group.

In addition, during the second semester of 2016, industrial building were transferred from the assets held for sale heading to properties investments as a result of a group decision, since there was a possibility that the sale, might not materialise in the short term. These are five properties, most of which are on lease.

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.

Regarding the properties of the distribution segment that were transferred to investment property in the current year, during 2016 the Group updated the appraisals of these industrial buildings, with the company Aguirre & Newman performing the appraisal of 89% of the total amount of the industrial buildings pertaining to the segment. Such appraisals did not reveal any losses due to value impairment.

However, after the decision to sell the distribution segment and in light of all the evidence of sales on the market of similar properties at prices lower than the appraisal value, the Group noted an impairment amounting to 3 million euros in relation to these properties which is assigned under "Other net profit/(losses)" in the profit and loss accounts of financial year 2016 (Note 27). The net book value of the industrial buildings amounts to 15.8 million euros at 31 December 2017. In addition, in January 2018, the Group reached an agreement for the sale of two of them, with the deposit contracts having been signed but pending completion of their sale in 2018. The net book value of these assets at 31 December 2017 is 2.1 million euros, the agreed sale price being higher.

The Group has reviewed the valuations at 31 December 2017 and at 31 December 2016, with no further impairments being found.

Revenues from investment property income amounted to 360,000 euros (169,000 euros in 2016). The operating and maintenance costs of the investments during 2017 and 2016 were not material.

**(In thousands of euros)**

## 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:

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

| | 2016 | | | |
|---|---|---|---|---|
| | Credits and others | Derivatives used for hedging | Assets at fair value through results | Total |
| **Non-current assets** | | | | |
| • Other accounts receivable | 186 | - | - | 186 |
| | **186** | **-** | **-** | **186** |
| **Current financial assets** | | | | |
| • Derivative financial instruments (Note 10) | - | - | - | - |
| • Loans and items receivable | | | | |
| • Shot-term financial investments | 520 | | | 520 |
| • Clients and others accounts receivable (Note 11) (*) | 14,547 | | | 14,547 |
| • Cash and cash equivalents (Note 13) | 7,620 | - | - | 7,620 |
| | **22,687** | **-** | **-** | **22,687** |

(*) Excludes accounts receivable with public administrations amounting to 2,879,000 euros (3,194,000 euros at 31 December 2016) (Note 30).

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

**(In thousands of euros)**

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Hedging derivatives | Other financial liabilities at amortised cost | Total | Hedging derivatives | Other financial liabilities at amortised cost | Total |
| **Non-current liabilities:** | | | | | | |
| • Loans received (Note 20) | - | 211,951 | 211,951 | - | 149,055 | 149,055 |
| • Derived financial instruments (Note 10) | 351 | - | 351 | 61 | - | 61 |
| • Trade payables and other accounts payable (Note 19) | - | 27,566 | 27,566 | - | 33,155 | 33,155 |
| | **351** | **239,517** | **239,868** | **61** | **182,210** | **182,271** |

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Liabilities at fair value with changes in the results | Other financial liabilities at amortised cost | Total | Liabilities at fair value with changes in the results | Other financial liabilities at amortised cost | Total |
| **Current financial liabilities:** | | | | | | |
| • Loans received (Note 20) | - | 26,731 | 26,731 | - | 59,870 | 59,870 |
| • Derived financial instruments (Note 10) | - | - | - | 1,044 | - | 1,044 |
| • Trade payables and other accounts payable (Note 19) | - | 108,181 | 108,181 | - | 99,808 | 99,808 |
| | **-** | **134,912** | **134,912** | **1,044** | **159,678** | **160,722** |

(*) Excludes accounts receivable with public administrations amounting to 3,441,000 euros (3,478,000 euros at 31 December 2016) (Note 30).

### 9.2. Credit quality of financial assets

Financial assets relate mainly to deposits and issues carried out by top-tier Spanish financial institutions whose assets are deposited in national or international top-tier entities. These assets have not suffered impairment loses in the 2017 and 2016.

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

**(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:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Forward currency contracts - cash flow hedges | 261 | - | - | - |
| Forward currency contracts - held for trading | 141 | - | - | 1,044 |
| Interest rate swap contracts - cash flow hedges | - | 351 | - | 61 |
| | 402 | 351 | - | 1,105 |

As of 31 December 2017, there were forward foreign currency purchase and sale contracts for highly probable or concluded transactions for a total amount of 27.5 million dollars (USD), 0.4 million Australian dollars (AUD) (2016, 33.7 million dollars (USD) and 0.5 million Australian dollars (AUD), whose maturity occurs in all cases in 2018 (for the existing operations at 31 December 2016, all of them matured in 2017). Part of these contracts are accounted for as held for trading with gains (losses) recognised in income and other parts are considered as hedging derivatives.

In addition, during the 2015 financial year, the Group began to enter into interest rate swap transactions. The amounts of the notional principal of the interest rate swap transactions (from variable to fixed) outstanding at 31 December 2017 are 41.7 million euros (19.6 million euros at 31 December 2016). These swap transactions are classified as hedging instruments. A 31 December 2017, fixed interest rates of these swaps were between -0.25% around 1% with the fixed rate spread over the life of the contract and the benchmark variable interest rate being the Euribor at 6 months (31 December 2016: fixed interest rates were around 0.18% and the benchmark variable interest rates was Euribor at 3 months).

### 11. Clients and others accounts receivable

| | 2017 | 2016 |
|---|---|---|
| Customers | 18,614 | 13,798 |
| Less: Value impairment of receivables | (169) | (142) |
| Customers - Net | 18,445 | 13,656 |
| Other receivables (personal and other debts) | 799 | 891 |
| Total | 19,244 | 14,547 |

Accounts receivable are displayed at nominal values that do not differ from their fair values based on discounted cash flow 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).

**(In thousands of euros)**

In addition to the non-recourse factoring transactions described in Note 3.1.b), as of 31 December 2016 the amount of customer balances and receivables discounted in financial institutions amounted to 503,000 euros (Note 20).

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 overdue accounts receivable. At 31 December 2017, 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.

Customer accounts not subject to impairment losses refer to independent customers who have no recent history of default. All these customer balances mature in under twelve months (2016, under twelve months).

As of 31 December 2017 all accounts receivable, due or not, whose recovery could be considered as doubtful in those dates, have been impaired. The value impairment was made by estimating the reasonable loss that corresponds to each customer less the amounts whose recovery is guaranteed by Insurance Companies.

The movement in the value impairment for the financial years 2017 and 2016 corresponds to the following amounts and concepts:

| | Total |
|---|---|
| At 31 December 2015 | 1,070 |
| Allocations /(Reversion) (Note 26) | (24) |
| Applications | (282) |
| Transfer to assets held for sale | (622) |
| At 31 December 2016 (*) | 142 |
| Allocations/(Reversion) (Note 26) (*) | 27 |
| At 31 December 2017 (*) | 169 |

(*) Considering the amounts recovered from CESCE

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

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

**(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 above-mentioned credit insurance hedging.

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 | |
|---|---|---|
| | **2017** | **2016** |
| US Dollar | 12,609 | 6,954 |
| Pound sterling | - | 74 |
| Other currencies | 788 | 482 |
| | 13,397 | 7,510 |

The aging of overdue balances held by the Company at 31 December 2017 and 2016, without considering those balances already impaired, is as follows:

| | **2017** | **2016** |
|---|---|---|
| Balances not due | 13,770 | 7,658 |
| Overdue balances up to 3 months | 3,599 | 5,263 |
| Overdue balances from 3 to 6 months | 1,245 | 877 |
| | 18,614 | 13,798 |

The aging of the provision for bad debts held by the Company at 31 December 2017 and 2016 for continuing operations is as follows:

| | **2017** | **2016** |
|---|---|---|
| Provision of overdue balances up to 3 months | - | - |
| Provision of overdue balances of over 3 months (*) | 169 | 142 |
| | 169 | 142 |

(*) Considering the amounts recovered from CESCE

## 12. Inventories

| | **2017** | **2016** |
|---|---|---|
| Raw materials and other supplies | 28,126 | 31,003 |
| Work in progress | 20,299 | 25,588 |
| Finished products | 45,863 | 45,330 |
| $CO_2$ emission allowances | 946 | - |
| | 95,234 | 101,921 |

**(In thousands of euros)**

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

| | 2017 | 2016 |
|---|---|---|
| – Purchases | 133,990 | 90,584 |
| – Variations in raw materials and other supplies | 2,877 | 258 |
| – Variations in provisions for value impairment of work in progress and finished product | (625) | (16) |
| – Variation of work in progress and finished goods | 5,381 | 466 |
| | 141,623 | 91,292 |

During financial years 2017 and 2016 there were purchases in foreign currency amounting to 17 and 16 million euros respectively.

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

| | Total |
|---|---|
| **At 31 December 2015** | **6,485** |
| Allocations / (Reversions) | (223) |
| Applications | (30) |
| Transfer to held for sale | (1,233) |
| **At 31 December 2016** | **4,999** |
| Allocations / (Reversions) | (676) |
| **At 31 December 2017** | **4,323** |

The provisions maintained at 31 December 2017 were estimated based on turnover statistics and individual analysis of the conditions and assessment of the various items comprising the Group's inventories.

In addition, the Group, considering the net recovery value of all inventories, registered valuation adjustments amounting to 0.8 million euros (2016: 6 million euros).

**(In thousands of euros)**

### 13. Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| Cash and banks | 16,999 | 7,620 |
| | 16,999 | 7,620 |

The total foreign currency balances at 31 December 2017 amounted to 4,964,000 euros (2016: 3,734,000 euros).

### 14. Assets held for sale and discontinued operations

Assets classified as held for sale at 31 December 2016 relate entirely to assets for the distribution segment (Note 1). The sale of the automotive segment took place during the current financial year, thus classifying the results of the distribution segment, as well as the result obtained by the sale, as a discontinued operation.

In addition, the automotive segment was sold during the second half of 2016. The results of these segments were classified as discontinued operations at 31 December 2016.

#### 14.1 Distribution segment

At year-end 2016, it was decided to classify the distribution segment as an asset held for sale, following the agreements reached to formalise the sale of that business on 29 June 2017. In this way, at 31 December 2016 the distribution business was considered a discontinued operation, except with regard to the industrial buildings that were being used in the business and in the projects and prefabricated business, since they were not going to be part of this transaction (see Note 1). The buildings were classified as property, plant and equipment at 31 December 2016 and were transferred to investment property during the first half of 2017 after the segment was sold (see Note 8).

The sale price of the transaction was one euro for all the shares in the distribution segment, the Group being a 100% shareholder. The sale had a negative effect of 1.8 million euros on the Group's consolidated profit and loss account.

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

**(In thousands of euros)**

a) Non-current asset cash flow held for sale and discontinued operations:

| | 2017 | 2016 |
|---|---|---|
| Cash flow from operating activities | 2,055 | (68) |
| Cash flow from investment activities | (29) | 1,399 |
| Cash flow from financing activities | (1,234) | (1,417) |
| Net disinvestment distribution segment (*) | (792) | - |
| **Total cash flow** | **-** | **(86)** |

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

b) Non-transferable Group assets classified as held for sale and other non-current assets (distribution segment)

| | 29/06/2017 (*) | 2016 |
|---|---|---|
| - Property, plant and equipment | 102 | 76 |
| - Intangible assets | 952 | 952 |
| - Other non-current assets | 16 | 12 |
| - Inventories | 4,638 | 5,777 |
| - Debtors and other accounts receivable | 3,555 | 1,160 |
| Value impairment of intangible assets | (952) | (952) |
| Cash and cash equivalents | 792 | - |
| **Total** | **9,103** | **7,025** |

(*) Including assets at the time of the sale

c) Non-transferable Group liabilities classified as held for sale

| | 29/06/2017 (*) | 2016 |
|---|---|---|
| Debts with credit institutions | 947 | 2,181 |
| Suppliers and creditors | 6,346 | 2,406 |
| Other current liabilities | - | 38 |
| **Total** | **7,293** | **4,625** |

(*) Including liabilities at the time of the sale

**(In thousands of euros)**

d) Analysis of the results of discontinued operations

| | 2017 | 2016 |
|---|---|---|
| Income | 8,749 | 18,393 |
| Expenses | (10,508) | (21,454) |
| Profit/(loss) before tax of discontinued operations | (1,759) | (3,061) |
| Reversal of tax credits | - | (2,565) |
| Value impairment of intangible assets | - | (952) |
| Profit/(loss) assigned on the sale (Note 5) | (1,810) | - |
| **Profit/(Loss) for the period from discontinued operations** | **(3,569)** | **(6,578)** |

As part of the process of selling the distribution segment, the Group granted Almesa a temporary loan amounting to 2.5 million euros, maturing on 31 December 2018 and bearing interest at 4% in the first two months and 5.5% over the remaining life of the loan. The amount outstanding at 31 December 2017 was 1,590,000 euros. There is no clause relating to the sale of Almesa that may prevent the collection of the loan. The Group has carried out a recoverability analysis of the loan taking into account Almesa's financial situation at 31 December 2017, without detecting any impairment of the receivable.

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

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

### 14.2 Automotive segment

As indicated in Note 1, the decision to sell the automotive segment was made on 28 April 2016 (previously consisting of the companies Industria Auxiliar Alavesa, S.A. (INAUXA), Engineering Developments for Automotive Industry, S.L. (EDAI), EDAI Technical Unit, A.I.E., Kunshan Inautek Automotive Components Co. Ltd. and Inaumex, S.A. de C.U.), the sale taking place on 29 July 2016.

The Group, together with the rest of the minority shareholders in the automotive segment, signed a binding agreement on 20 June 2016 for the sale of the entirety of its shares in the companies of that segment.

The sale price of the operation amounted to 33 million euros for all shares of the automotive segment (net sale price after expenses of 31.8 million euros), with the Group owning a share of 50%. The sale had a positive effect amounting to 4 million euros on the Group's consolidated profit and loss account.

**(In thousands of euros)**

The difference between the sale price and the net sale price, which amounts to 1.2 million euros, corresponds to the expenses inherent in this type of transaction, such as consultants' fees, verification procedures, lawyers, incentives, etc., all of which are classified by nature in the income statement.

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

| | |
|---|---|
| Property, plant and equipment | 20,042 |
| Intangible assets | 1,511 |
| Financial investments | 22 |
| Deferred tax assets | 3,351 |
| Inventories | 10,667 |
| Trade receivables | 9,343 |
| Short-term financial investments | 4 |
| Consolidation adjustments | 178 |
| Cash and cash equivalents | 4,564 |
| **Total assets** | **49,682** |
| | |
| Deferred income | 272 |
| Provisions | 39 |
| Long-term and short-term debt | 10,412 |
| Deferred tax liabilities | 785 |
| Trade payables | 13,958 |
| Others | 146 |
| **Total liabilities** | **25,612** |

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

| | **2017** | **2016 (*)** |
|---|---|---|
| Cash flow from operating activities | - | 1,710 |
| Cash flow from investment activities | - | (13,828) |
| Net disinvestment automotive segment (**) | - | 11,324 |
| Cash flow from financing activities | - | (1,408) |
| **Total cash flow** | **-** | **(2,202)** |

(*) Corresponds to the flow generated until 29 July 2016 (date of the sale of the segment).
(**) Includes the amount actually charged by the sale of the segment less the cash delivered amounting to a total of 4,564,000 euros.

**(In thousands of euros)**

c) Analysis of the results of discontinued operations

| | 2017 | 2016 (*) |
|---|---|---|
| Income | - | 35,340 |
| Expenses | - | (35,134) |
| Profit/(loss) before tax of discontinued operations | - | 206 |
| Tax on profits | - | (116) |
| **Net profit of discontinued operations net of tax** | **-** | **90** |
| Profit / (loss) assigned on the sale | **-** | **3,952** |
| **Profit for the period from discontinued operations** | **-** | **4,042** |

(*) Results corresponding to the period from 1 January 2016 to 29 July 2016, when the sale of the segment took place.

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

The nature of the guarantees granted to the purchaser are the usual in this type of transaction: guarantees intended to remedy any loss and damage suffered by the seller as a result of the seller's failure to comply with representations made by the seller, such as that the shares are in the seller's legitimate possession or that they are unencumbered, or as a result of guarantees for products manufactured before the period of the sale for which the amount claimed exceeds the limits covered by the insurance company or for failure to comply with tax or social security obligations in the period preceding the sale. To date, these guarantees are being fulfilled and it has not been necessary to record any liabilities. Group administrators do not expect any liabilities arising in connection with the operation.

### 14.3 Property Investment

During financial year 2016, and in light of the possibility that the sale of some of the properties which were classified as held for sale does not materialise in the next 12 months, in 2016 the Group decided to transfer these properties to the "Property investment" heading of the consolidated balance sheet at 31 December 2016 (Note 8).

The movement of the non-current assets held for sale during the 2016 financial year was as follows:

| | Total |
|---|---|
| **Final balance at 31 December 2015** | **3,120** |
| Derecognition of investment property | (985) |
| Transfer of property investments (Note 8) | (2,135) |
| **Final balance at 31 December 2016** | **-** |

(In thousands of euros)

Derecognition for financial year 2016 relates to the sale of one property, whose value amounted to 985,000 euros at 31 December 2015. The negative result of the sale of this property amounted to 35,000 euros.

## 15. Share capital and share premium

| | No. of shares (thousand) | Share capital | Share issuance premium | Treasury shares | Total |
|---|---|---|---|---|---|
| **Balance at 31 December 2015** | 174,681 | 17,468 | 387 | (1,026) | 16,829 |
| Acquisition of treasury shares | - | - | - | (4,391) | (4,391) |
| Sale of treasury shares | - | - | - | 4,480 | 4,480 |
| **Balance at 31 December 2016** | 174,681 | 17,468 | 387 | (937) | 16,918 |
| Acquisition of treasury shares | - | - | - | (6,143) | (6,143) |
| Sale of treasury shares | - | - | - | 6,078 | 6,078 |
| **Balance at 31 December 2017** | 174,681 | 17,468 | 387 | (1,002) | 16,853 |

a) Share capital

During the financial years 2017 and 2016, there were no changes in capital, therefore the total number of common shares amounts to 174,680,888 shares with a nominal value of 0.1 euros per share.

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

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

| | 2016 | |
|---|---|---|
| **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 2017 was 0.745 euros per share (31 December 2016, 0.865 euros per share).

**(In thousands of euros)**

b) Share issuance premium

This premium is freely distributable.

c) Treasury shares

**2017 Financial Year**

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

**2016 Financial Year**

| | Number of shares | Amount (thousands of euros) |
|---|---|---|
| Initial balance | 562,748 | 1,026 |
| Acquisitions | 6,093,224 | 4,391 |
| Sales | (6,243,948) | (4,480) |
| Final balance | 412,024 | 937 |

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

On 22 June 2017, the General Shareholders' Meeting authorised the acquisition of treasury shares up to the maximum number of shares allowed under current legislation for a maximum period of 5 years.

At 31 December 2017, Clima S.A.U., a company whose aforementioned current liquidity contract remains in force, owned 438,536 shares with a value of 1,002,000 euros (2016, 412,024 shares with a value of 937,000 euros).

## 16. Other reserves and retained earnings

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

| | 2017 | 2016 |
|---|---|---|
| Other reserves | 48,924 | 48,924 |
| Retained earnings | 78,306 | 110,733 |
| | 127,230 | 159,657 |

(In thousands of euros)

a) Other reserves

First conversion reserves

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

b) Retained earnings

b.1) Reserves of the Parent Company

At year-end 2017 and 2016 the reserves (excluding the share issuance premium) included in the annual accounts of the parent company are as follows:

| | 2017 | 2016 |
|---|---|---|
| Legal reserve | 4,099 | 4,099 |
| Voluntary reserve | 47,980 | 48,313 |
| | 52,079 | 52,412 |

Legal reserve

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

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

The legal reserve exceeded the legal limit required as of 31 December 2017 and 2016.

Voluntary reserve

The voluntary reserve is freely distributable.

b.2) Other unavailable reserves

As of 31 December 2017 and 2016 there were other unavailable reserves and retained earnings corresponding to:

| | 2017 | 2016 |
|---|---|---|
| Legal reserve of Investees | 8,768 | 9,797 |
| | 8,768 | 9,797 |

(In thousands of euros)

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

c) Distribution of results proposal

The proposed distribution of the 2017 results of the parent company to be submitted to the General Meeting of Shareholders (based on unconsolidated balances prepared following the GAAP criteria), and the distribution approved in 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| **Allocation basis** | | |
| Performance of financial year | (7,489) | (333) |
| **Distribution** | | |
| Negative results from previous financial years | (7,489) | (333) |
| | (7,489) | (333) |

d) Stock options

The only stock option plan outstanding at December 31, 2017 is detailed in Note 36.e).

There were no only stock option plans in 2016.

## 17. Minority interests

The movement for the minority interests account for the years 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| **Initial balance** | 3,668 | 17,106 |
| Performance of financial year | (1,600) | (1,063) |
| Exchange differences | - | (108) |
| Variations in the scope of consolidation | - | (12,267) |
| **Final balance** | 2,068 | 3,668 |

The distribution by companies is shown in the following table:

| **Company/Subgroup** | 2017 | 2016 |
|---|---|---|
| Tubos Reunidos Premium Threads, S.L. (Note 1) | 2,068 | 3,668 |
| | 2,068 | 3,668 |

During financial year 2016, the automotive segment was sold (Note 14), in which Tubos Reunidos Group had a 50% stake. The output in the consolidated scope corresponds to the 50% stake held by external partners of that segment (Inauxa and EDAI).

(In thousands of euros)

The breakdown of the amount of minority interests between ongoing and discontinued operations is as follows:

| | 2017 | 2016 |
|---|---|---|
| Ongoing operations | (1,600) | (1,108) |
| Discontinued operations (*) | - | 45 |
| | **(1,600)** | **(1,063)** |

(*) Results corresponding to automotive segment sold in 2016.

## 18. Deferred income

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

| | 2017 | 2016 |
|---|---|---|
| Tax credits for deductions for investments | 10,335 | 11,891 |
| Other income to be distributed in various financial years | 2,779 | 1,974 |
| | 13,114 | 13,865 |

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

| | 2017 | 2016 |
|---|---|---|
| **Initial balance** | 11,891 | 13,548 |
| Generation in the financial year (Note 21) | - | 29 |
| Credit to the profit/loss account for the period (Note 24) | (1,556) | (1,602) |
| Transfer to assets held for sale | - | (84) |
| **Final balance** | 10,335 | 11,891 |

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

(In thousands of euros)

## 19. Accounts payable

a) Other non-current liabilities

This heading includes the following items and amounts:

| | **2017** | **2016** |
|---|---|---|
| Suppliers of property, plant and equipment | 96 | 721 |
| Public Administrations | 9,752 | 11,935 |
| Other debts | 17,718 | 20,499 |
| Trade payables and other accounts payable | 27,566 | 33,155 |

The 'Other debt' heading basically includes loans from official agencies at a subsidised rate amounting to 17.6 million euros (2016, 20.4 million euros), mainly to finance research and development projects.

At the end of 2017 and 2016 long-term accounts payable are included within Public Administrations.

*a.1) Leases*

There are no financial lease liabilities at 31 December 2017. All financial lease agreements corresponded in their entirety to the automotive segment sold in FY 2016 (see Note 14.2).

*a.2) Other non-current liabilities*

Other non-current liabilities present the following maturity schedule:

| | **2017** | **2016** |
|---|---|---|
| Between 1 and 2 years | 5,978 | 6,394 |
| Between 2 and 5 years | 21,272 | 17,706 |
| More than 5 years | 316 | 9,055 |
| | 27,566 | 33,155 |

b) Trade payables and other accounts payable

This heading includes the following items and amounts:

| | 2017 | 2016 |
|---|---|---|
| Suppliers | 84,266 | 73,606 |
| Remunerations pending payment | 2,862 | 4,642 |
| Other debts | 12,118 | 8,605 |
| Suppliers of property, plant and equipment | 8,935 | 12,955 |
| Trade payables and other accounts | 108,181 | 99,808 |

**(In thousands of euros)**

The "Other liabilities" heading mainly includes Public Administration balances amounting to 4.2 million euros (3.7 million euros at 31 December 2016), customer advances amounting to 4.5 million euros (3.1 million euros at 31 December 2016) and the short-term portion from government agency loans at a subsidised rate amounting to 3.2 million euros (1.7 million at 31 December 2016).

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

As of 31 December 2017 and 2016, the 'Outstanding remuneration' heading mainly contains the payroll of the month of December, the variable compensation accrued during the financial year, the compensations pending settlement and other remuneration items set by collective agreement.

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

The information on the average payment period to suppliers in commercial operations for financial years 2017 and 2016, in accordance with the obligations established by Law 15/2010 of 5 July, is as follows:

| | 2017 | 2016 |
|---|---|---|
| | **Days** | **Days** |
| Average payment period to suppliers | 87 | 79 |
| Ratio of paid transactions | 93 | 83 |
| Ratio of outstanding payment transactions | 72 | 70 |
| | **Thousands of euros** | **Thousands of euros** |
| Total payments made | 186,071 | 131,375 |
| Total outstanding payments | 65,889 | 53,333 |

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

| | Thousands of euros | |
|---|---|---|
| | **2017** | **2016** |
| US Dollar | 8,303 | 4,859 |
| Other currencies | 163 | 8 |
| | 8,466 | 4,867 |

(In thousands of euros)

## 20. External funds

| | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Loans with credit institutions | 191,540 | 128,720 |
| Negotiable debentures and securities | 15,119 | 15,043 |
| Loans with related entities | 5,292 | 5,292 |
| | 211,951 | 149,055 |
| Current | | |
| Short-term and long-term loans | 18,906 | 50,549 |
| Negotiable debentures and securities | 4,300 | - |
| Financing of imports | 679 | - |
| Disposed in credit accounts | 832 | 6,830 |
| Outstanding discounted bills | - | 503 |
| Interest payable and others | 1,009 | 1,193 |
| Loans with related entities | 1,005 | 795 |
| | 26,731 | 59,870 |
| Total other outside funds | 238,682 | 208,925 |

Of the total external funds of the Group at 31 December 2017, 14.96% of the debt is referenced at a fixed rate (12.9% at 31 December 2016); for 17.5% of the debt, the Group uses interest rate swap transactions for cash flow hedges (for 9% of the debt at 31 December 2016) and the rest of the debt is at a variable rate.

Debt restructuring process – syndicated loan

The Group has carried out a debt restructuring process to adapt future debt repayments to the estimated cash flow generated in the coming years based on the strategic plan designed by the previous management at the end of 2016.

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

This loan restructures all long-term bank loans, with the exception of the EIB loan (27.9 million euros at 31 December 2016 and 22.9 million euros at 31 December 2017) and three loans and one credit line with two financial institutions not exceeding 3 million euros, and all short-term and long-term credit facilities.

The financing is structured in three tranches:

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

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

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

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

The financing agreement establishes clauses to maintain the syndicated financing under the current conditions, although in 2017 they are limited to fixing a maximum amount for the Group's investments that it has fulfilled.

From 2018 onwards, the loan requires annual compliance with the Net Financial Debt/EBITDA ratio, which in 2018 is set at 6.0x and gradually declines over the following years to a ratio of 2.5x in 2021 and subsequent years.

As indicated in Note 4.2, and considering the Group's current and foreseeable situation, it is possible that the financial ratio set for 2018 may not be met. However, based on past experience with the financial institutions, in the event that said obligation were not met, Group Management hopes to continue to obtain the compliance waiver before 31 December 2018. Since the annual annual accounts are prepared on a going concern basis and there is no default at the balance sheet date that would allow the loan to be called up, with any potential default being on 31 December 2018, the debt is classified as long-term. In addition, in the event of a potential default without waiver, the Group has an additional 15 days to redress the breach, after which time it cannot be called up under any circumstances in 2018.

In addition, the loan includes certain mandatory early repayment assumptions such as 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 Annual accounts for each year, the first of which relates to the year ended 31 December 2018.

The agreement limits the distribution of dividends of the Group, allowing dividends to be distributed from 2019 onwards for a maximum of 35% of the consolidated net profit of the previous year, provided that the aforementioned cash sweep has been previously carried out and that the Net Financial Debt/EBITDA ratio, once the distribution has been made, is lower than 2.0x.

In 2016 there was an ICO loan that required certain ratios for the subsidiary Tubos Reunidos Industrial, S. L. (Sociedad Unipersonal) to be met annually. These were not fulfilled at 31 December 2016, so the Group classified the short-term debt with the ICO. This debt was included as part of the syndicated loan and, therefore, upon signing the syndicated loan, this debt is subject to compliance with the ratios set forth in the agreement.

The corresponding analysis has been carried out in accordance with IAS 39, concluding that the restructuring of the debt in the syndicated loan described above met the requirements for it to be considered a new financial liability. Therefore, the cancellation of the previous liabilities and recognition of the new debt was effected, with an impact on the income statement of 3.3 million euros arising from the fees accrued on opening the previous loans and the expenses arising from the reorganisation of the debt (mainly derived from this second effect).

In addition, as part of the restructuring process, the Group has renewed its working factoring and confirming lines. The term of the renewal is for one year, and it can be extended automatically by annual periods until the maturity of the syndicated loan.

Debt with the EIB (European Investment Bank)

The Group has a debt with the European Investment Bank totalling 22.9 million euros at 31 December 2017 (27.9 million euros at 31 December 2016).

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

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

These conditions must be fulfilled on a quarterly basis throughout 2017. At 31 March 2017, the conditions were not met and the Group obtained the corresponding waiver (at 31 December 2016, the conditions were not met either, and the Group obtained the waiver prior to year-end). At 31 December 2016, the possibility existed that the obligation of one of the financial ratios established in the EIB loan for 2017 may not be fulfilled. However, based on past experience with the EIB, in the event that this obligation is not met, the Group Management hopes to continue to obtain waivers at any given time, as they have been obtained throughout 2016. In addition, the Group's Management also carried out an analysis of the existing liquidity, considering the debt restructuring process that has been carried out and understanding that the liquidity situation did not pose a problem for an operating company. Therefore, the debt was classified as long-term at 31 December 2016.

Among the EIB loan conditions it was indicated that, in the case of the sale of the automotive segment, the Group should repay an amount of the loan ahead of time equivalent to the debt ratio of the EIB loan concerning the total debt on the amount charged for the sale. Due to the sale of the automotive segment in July 2016, the Group managed an early repayment of 2.6 million euros.

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

An agreement was signed with the EIB on 11 July 2017 amending certain conditions of the original loan signed in 2013. In addition to the aforementioned variation in the repayment schedule, the modified conditions include a change in the compliance ratios mentioned earlier in this note. The financial ratios to be complied with from FY 2018 onwards were changed, setting the same terms as the ratios required in the syndicated loan. In addition, the need is set for FY 2017 to reach a minimum EBITDA of 20 million euros and to maintain the liquidity reserve at a minimum of 30 million euros. At 31 December 2017 the Group had met the liquidity reserve but not the EBITDA ratio requirement. In this case, the EIB is in a position to ask the Group to provide a report from an independent expert for the review of the business plan, although this was not requested at the time of drafting this report.

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

Ekarpen loan

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

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

Promissory notes

In FY 2017, the Group implemented an issue programme of promissory notes in the Alternative Fixed Income Market (MARF) with a maximum outstanding balance of 40 million euros, effective until November 2018. Through this programme, the Company will be able to issue promissory notes when market conditions so dictate. The amount of promissory notes issued at 31 December 2017 was 4.3 million euros.

**(In thousands of euros)**

<u>Other debts</u>

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

Furthermore, during financial year 2016, the group company Tubos Reunidos Premium Threads, S.L. received funding from its partners amounting to 4 million euros, depending on the percentage of participation in the Company (in 2015 it received funding amounting to 8 million euros under the same conditions). Thus, a loan received from Marubeni-Itochu Tubulars Europe Plc of 5.9 million euros (5.3 million euros in the long-term and 0.6 million euros in the short-term as of 31 December 2016) is accounted as external funds of the consolidated liabilities at 31 December 2016. This loan accrues a fixed interest rate of 3.5% payable from 1 July 2017. However, in FY 2017 Tubos Reunidos Premium Threads, S. L. reached an agreement with its partners for the deferment of all maturities of the 18-month loan, so that the first maturity is set at 31 December 2018 and the last maturity in 2022. The only change concerned the aforementioned amendment to the debt repayment schedule and, after analysis in accordance with IAS 39, it was concluded that the debt was not new. Additionally, there are no accrued expenses associated with this loan. The total debt at 31 December 2017 amounts to 6,297,000 euros (1,005,000 euros classified in the short term).

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

| | % | |
|---|---|---|
| | **2017** | **2016** |
| Credits and loans with financial entities | 3.2% | 2.2% |
| Suppliers of property, plant and equipment | 2.0% | 1.2% |
| Import financing | 3.5% | 2.0% |
| Discounted bills | - | 1.8% |

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

| | **2017** | **2016** |
|---|---|---|
| Between 1 and 2 years | 21,567 | 55,240 |
| Between 2 and 5 years | 189,208 | 77,261 |
| More than 5 years | 1,176 | 16,554 |
| | 211,951 | 149,055 |

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

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

**(In thousands of euros)**

The Group has the following unused credit facilities:

| | 2017 | 2016 |
|---|---|---|
| Variable rate: | | |
| – with maturity in less than one year | 1,668 | 35,766 |
| – with maturity in more than one year (*) | 29,081 | 19,407 |
| | 30,749 | 55,173 |

(*) This amount corresponds to the syndicated loan revolving account, which must be fully paid up during the last five days of December each year.

## 21. Deferred taxes

The breakdown of Deferred Tax Assets by source corresponds to:

| | 2017 | 2016 |
|---|---|---|
| Temporary differences | 1,012 | 1,938 |
| Negative tax base | 20,898 | 19,888 |
| Deductions pending use and other | 29,612 | 29,617 |
| Total | 51,522 | 51,443 |

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

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

The amounts of the deferred tax assets are as follows:

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets: | | |
| - Deferred tax assets to be recovered in more than 12 months | 51,522 | 51,443 |
| - Deferred tax assets to be recovered in 12 months | - | - |
| | 51,522 | 51,443 |

**(In thousands of euros)**

Movements during the financial years 2017 and 2016 in deferred tax assets were as follows:

| Deferred tax assets | Temporary differences | Negative tax base | Deductions pending payment | Total |
|---|---|---|---|---|
| **At 31 December 2015** | 2,147 | 23,020 | 32,224 | 57,391 |
| Generation in current and previous financial years | - | 43 | - | 43 |
| Deductions noted as deferred income (Note 18) | | | 29 | 29 |
| Transfers | 81 | (81) | - | - |
| Other deductions noted as income tax (Note 30) | - | - | 40 | 40 |
| Transfer to held for sale (automotive segment) | (13) | (307) | (2,676) | (2,996) |
| Application / Write off | (277) | (2,787) | - | (3,064) |
| **At 31 December 2016** | 1,938 | 19,888 | 29,617 | 51,443 |
| Generation in current and previous financial years | 58 | 453 | - | 511 |
| Other deductions noted as income tax (Note 30) | - | - | 2 | 2 |
| Transfers | (550) | 557 | (7) | - |
| Application / Write off | (434) | - | - | (434) |
| **At 31 December 2017** | 1,012 | 20,898 | 29,612 | 51,522 |

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

At 31 December 2017, the Group has tax loss carry-forwards from prior financial years amounting to a share of 49,491,000 euros, of which 28,593,000 euros are not activated. All of these taxable bases relate to the Seamless Pipe segment.

In addition, the Group has deductions pending implementation as of 31 December 2017 amounting to 31,723,000 euros, of which 2,104,000 euros are not activated. All of these deductions relate to the Seamless Pipe segment.

All of the deferred tax assets accounted for by the Group at 31 December 2017 relate to the Basque Country tax group.

The description of the Basque Country tax group is detailed in Note 30.

The applicable legislation for the tax periods from 1 January 2014 onwards for entities subject to the Alava provincial legislation (the Basque Country tax group) establishes a temporary limit of 15 years for deductions and tax loss carry-forwards generated, establishing in addition that for those that existed prior to the aforementioned date, the period of 15 years begins from 1 January 2014.

Therefore, in regard to the Basque Country tax group's tax loss carry-forwards and deductions generated to be carried forward prior to the 2014 financial year (10.1 million in tax loss carry-forwards in instalments and 24.7 million in deductions) expire in 2028. The amounts generated in the 2014 financial year (0.4 million in taxable bases in instalments and 4.9 million euros of deductions) expire in 2029. The tax loss carry-forwards and deductions generated in 2015 (9.8 million in taxable bases in instalments and 1.3 million euros of deductions) expire in 2030. The tax loss carry-forwards and deductions generated in 2016 (16.7 million in taxable bases in instalments and 0.7 million euros of deductions) expire in 2031. The taxable bases generated in the current financial year (12.5 million euros) expire in 2032.

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

In the case of the Basque Country tax group, the business plan and its main assumptions are included in Note 6. In accordance with this business plan, the assigned amounts would be recovered within a period of 7 years (2016: 7 years). The plan enables the recovery of the assigned tax credits to be fairly justified.

In addition to the business plan used by the Group Management regarding the analysis of the recoverability of tax credits, as indicated in Note 6, the Group Management has performed a sensitivity analysis, reducing the results by 10%. In this scenario, the amounts recorded as deferred tax assets would be recovered within 8 years. As such, having seen through a sensitivity analysis, and considering that in that more conservative scenario the tax credits would be recovered in less than 10 years, Group Management understands that the asset recovered has not suffered any impairment in value.

As indicated in note 6, the Group's new management has implemented corrective measures, mainly the Transforma 360º Plan, to return to profit after the 2015-2017 three-year period. As indicated above, the Transforma 360º Plan includes a series of initiatives that progressively improve EBITDA until 2020, after which it is expected to maintain the EBITDA levels expected to be reached in that year.

(In thousands of euros)

The balance of deferred tax liabilities corresponds to the fiscal effect of revaluation of land by application of IFRS 1 as at 1 January 2004. The movement in the financial year 2017 and 2016 was as follows:

| | Amount |
|---|---|
| **Balance at 31 December 2015** | **21,417** |
| Deferred tax liabilities arising from business combinations (Note 28) | 6,074 |
| Write-offs (value impairment of property, Note 6) | (739) |
| Transfer to held for sale (deconsolidation of automotive segment, Note 14) | (904) |
| Others | 308 |
| **Balance at 31 December 2016** | **26,156** |
| Regularisation of the tax rate in the United States | (1,163) |
| Derecognition | (610) |
| Exchange differences | (924) |
| Others | 317 |
| **Balance at 31 December 2017** | **23,776** |

## 22. Provisions

<u>Long term</u>

| | Staff adjustment plan | Others | Total |
|---|---|---|---|
| **At 31 December 2015** | 718 | 2,219 | 2,937 |
| Debit (credit) in the profit and loss account: | | | |
| Provisions | 388 | - | 388 |
| Reversal of provisions | - | (202) | (202) |
| Cancellation/payments | (417) | (605) | (1,022) |
| Transfers | (163) | - | (163) |
| Transfer to assets held for sale | - | (22) | (22) |
| **At 31 December 2016** | 526 | 1,390 | 1,916 |
| Debit (credit) in the profit and loss account: | | | |
| Provisions | 40 | 495 | 535 |
| Reversal of provisions (Note 27) | (109) | - | (109) |
| Cancellation/payments | (215) | (293) | (508) |
| Transfers | 98 | - | 98 |
| **At 31 December 2017** | 340 | 1,592 | 1,932 |

**(In thousands of euros)**

**Short term**

| | Staff adjustments plan | Provision of guarantees | Others | Total |
|---|---|---|---|---|
| **At 31 December 2015** | 514 | 5,165 | 84 | 5,763 |
| Debit (credit) in the profit and loss account: | | | | |
| Provisions (Note 26) | 4 | 2,482 | 547 | 3,033 |
| Application | (187) | (4,749) | (4) | (4,940) |
| Transfers | 163 | - | - | 163 |
| Exclusion from the scope of consolidation | - | - | (16) | (16) |
| **At 31 December 2016** | 494 | 2,898 | 611 | 4,003 |
| Debit (credit) in the profit and loss account: | | | | |
| Provisions (Note 26) | - | 903 | 922 | 1,825 |
| Reversal of provisions (Note 26) | (22) | (2,470) | - | (2,492) |
| Application | (160) | (90) | (550) | (800) |
| Transfers | (98) | - | - | (98) |
| **At 31 December 2017** | 214 | 1,241 | 983 | 2,438 |

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. During the 2015 financial year, there were renegotiations of the conditions of the agreements. In this way and by virtue of the new conditions, the group subject to these agreements was reduced. The remaining provisions at 31 December 2017 and 2016 cover the entirety of the Group's commitments in terms of the new conditions agreed upon in the 2016 financial year following the renegotiation.

b) The "Provision of guarantees" heading includes the expected liabilities in the 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.

In FY 2016, an amount of 2,916,000 euros, considered in the application of the provision, was recorded as Losses, impairment and changes in provisions for trade operations (Note 26), the same amount having been assigned to sales with the opposite sign (reducing sales) once the provision was applied.

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

Additionally "Other", in the short-term, includes the expenses generated by the emission of $CO_2$ gases in the production process, which amounted to 483,000 euros (547,000 euros in 2015 classified as long-term), to the extent that these emissions represent the allocated consumption allowances (Note 37.b)).

(In thousands of euros)

## 23. Operating income

| | 2017 | 2016 |
|---|---|---|
| Sales of goods | 312,521 | 194,928 |
| Total revenue | 312,521 | 194,928 |

Virtually all of the foreign currency amounts billed to customers, with 189 million euros being realised in dollars (74 million euros in 2016).

## 24. Other income

| | 2017 | 2016 |
|---|---|---|
| Work carried out by the Group for property, plant and equipment | 3,965 | 3,968 |
| Allocated to income by deduction from investment in new fixed assets (Note 18 and Note 2.19) | 1,160 | 1,206 |
| Allocated to income by deduction from investment in R&D under intangible assets (Note 18 and Note 2.19) | 396 | 396 |
| Operating subsidies | 173 | 232 |
| Others | 865 | 693 |
| | 6,559 | 6,495 |

During 2017, an amount of 483,000 euros from the portion taken up by the allowances was allocated to results (Note 2.8) (2016, 547,000 euros).

## 25. Expenses for employee benefits

| | 2017 | 2016 |
|---|---|---|
| Wages, salaries and similar expenses | 70,265 | 63,996 |
| Social contributions | 21,855 | 20,240 |
| Contributions and provisions for pensions | 1,764 | 1,860 |
| | 93,884 | 86,096 |

Given the Group's current activity levels (Note 6), during the 2016 financial year temporary redundancies were implemented in two of the Group's production plants (Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.L. (Sociedad Unipersonal)). Its application in 2016 resulted in savings of approximately 1.9 million euros. The deadline for the implementation of the temporary labour force adjustment plans (ERTEs) has already expired and the use of the ERTEs in 2017 was negligible.

**(In thousands of euros)**

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

| | 2017 | 2016 |
|---|---|---|
| Workers | 1,058 | 1,018 |
| Employees | 427 | 463 |
| Directors | 10 | 11 |
| | 1,495 | 1,492 |

The average number of staff in 2016 in the automotive segment sold in 2017 was 85 people (29 workers and 56 employees).

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:

| | 2017 | 2016 |
|---|---|---|
| Workers | 4 | 3 |
| Employees | 3 | 4 |
| | 7 | 7 |

As of 31 December 2017 and 2016, the distribution of staff to the corresponding continuing operations is as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Women | Men | Total | Women | Men | Total |
| Workers | 20 | 1,013 | 1,033 | 19 | 1,037 | 1,056 |
| Employees | 104 | 323 | 427 | 131 | 332 | 463 |
| Directors | 2 | 8 | 10 | 2 | 9 | 11 |
| | 126 | 1,344 | 1,470 | 152 | 1,378 | 1,530 |

From the staff at year-end 2016, 82 people (28 workers and 54 employees) belonged to the automotive segment sold during 2016.

## 26. Other expenses

The detail of this heading is as follows:

| | 2017 | 2016 |
|---|---|---|
| Operating expenses | 71,236 | 60,281 |
| Taxes | 2,024 | 854 |
| Losses, impairment and changes in trade provisions (Note 11 and Note 22) | (1,540) | (392) |
| Other current management expenses | 2,428 | 2,097 |
| | 74,148 | 62,840 |

**(In thousands of euros)**

## 27. Other income / net (losses)

This heading includes the following items and amounts:

| | 2017 | 2016 |
|---|---|---|
| Net profits/(losses) on property, plant and equipment, from assets held for sale and impairment of assets held for sale | (86) | (5,723) |
| Income from insurance | 1,684 | 13,520 |
| Other non-recurring income/(expense) | 212 | 138 |
| Reversal of provisions | 291 | 202 |
| Gain on disposal of investment property | 262 | - |
| | 2,363 | 8,137 |

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 damage affected assets mainly corresponding to constructions, technical installations and machinery, with a net book value of 2.7 million euros at 31 December 2015. In addition, as a result of the damage caused in the fires, various inefficiencies are arising in the production process and the additional costs, up until 31 December 2016, were estimated at approximately 9 million euros and were listed in the profit and loss account under each relevant heading. Certain extra costs have been claimed from the insurance company but not paid to date.

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. An additional amount of 1.7 million euros was received in 2017.

The insurance policy taken out by the Group covers the new replacement value of the assets affected by the fires and the Group has almost completed their replacement, pending the arrival and commissioning of some property, plant and equipment orders. No additional negative impacts are estimated to the Group's equity as a result of these fires. In any case, additional amounts which have not been assigned at year-end are being claimed from the insurance company.

## 28. Business combinations

On 24 August 2016, the Group reached a binding agreement with the shareholders of the companies Rotary Drilling Tools USA, LLC, Tubular Repari, LLC, Rotary Drilling Holdings IV, LLC and Pipe Coatings International LLC to acquire their business consistent with the manufacture and processing of OCTG. The acquisition has been agreed upon in an environment in which companies were selling under the supervision of the reorganisation court regulated by chapter 11 of the Bankruptcy Act in the United States.

The agreement states that the Group acquires most of the assets of the selling companies mentioned above as well as all contractual rights, information relating to the business and, in general, all rights necessary for the development of the acquired business (including the brand). The Group assumed no liability in the operation except those arising from contracts signed regarding business. The business acquired was established as a new company called RDT, Inc. of which the Group owns 100% of the share capital.

In accordance with the analysis of the transaction, considering the guidelines established in IFRS 3, the Group's Management considered that the acquisition met the definition of the business since, together with the tangible assets acquired, patents and inventories were also acquired and, in addition, part of the human team of the selling companies was incorporated; this team knew both the clients of the business sector and the specific production processes of RDT, thus ensuring the continuity of the business. The transaction included property, plant and equipment, intangible assets, contracts and personnel. Although there was no obligation to incorporate all the personnel of the selling companies, it was possible to access all their employees and hire those considered most important for the continuity of the business. Moreover, as reflected in the development of the businesses during 2017, thanks to the products and exclusive patents acquired in the transaction, RDT's turnover for 2017 amounts to 42 million euros, an amount that would have been impossible to achieve without the acquisition of a business.

The transaction was concluded on 15 September 2016, following the completion of the formal conditions for the improvement of the acquisition.

The business purchased is located southwest of Houston and is one of the main manufacturers in the segment; it has manufacturing installations specialising in high added value and its own innovative designs for tubular products developed in order to make a differential contribution to the requirements of the most advanced and competitive oil and gas drilling and production technologies.

Through RDT, Tubos Reunidos gains its own integral capabilities for processing and finishing in the USA for its OCTG piping manufactured at its Amurrio plant in Spain. With the acquisition, the Group additionally obtained logistic, cost and flexibility advantages, and also reinforcing the competitive positioning of Tubos Reunidos in the oil and gas market in North America, which has high growth opportunities, and also the possibility to expand to the Latin American market.

| | Thousands of euros |
|---|---|
| **Consideration transferred:** | |
| - Cash paid | (19,543) |
| - Fair value of net assets acquired attributable to the parent company | 31,766 |
| **Negative consolidation difference** | **12,223** |

(In thousands of euros)

The biggest impacts resulting from the allocation process of the price paid lies in consideration of fair value of the assets acquired. In this regard, there is a higher valuation of land, buildings, facilities and machinery, amounting to 18.4 million euros. Such fair values were calculated based on independent expert appraisals (the appraisals were assigned to appraisal companies CBRE and Duff & Phelps). The deferred tax liability associated with such fair value was also considered. Bearing in mind that the fair value of the assets exceeded the price paid, a negative difference in business combinations arose.

As for the appraisal reports indicated above, they do not contain any warnings or limitations that are unusual for such types of appraisal reports. In terms of their methods and main assumptions used:

- Duff & Phelps: In their report they assume that the best use of the facilities is their current use. In the case of the valuation method, the cost method was used, which consists of estimating the replacement cost of the assets as new and discounting the impact of their physical condition, taking into account any potential functional obsolescence.

- CBRE: The report was drafted according to the guidelines and recommendations of the USAP (Uniform Standards of Professional Appraisal Practice) and the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. In particular, it establishes that it does not make any extraordinary assumptions and the assumptions used are common for this type of appraisal, including, for example, the useful life of the buildings in their current state. The methods used for the appraisal of the property were the comparable multiples method and the cost method.

The assets and liabilities arising from the acquisition in September 2016 were as follows:

| | Thousands of euros |
|---|---|
| Property, plants and equipment (Note 6) | 36,823 |
| Intangible assets (Note 7) | 223 |
| Inventories | 794 |
| **Total assets** | **37,840** |
| | |
| Deferred tax liabilities (Note 21) | 6,074 |
| **Total liabilities** | **6,074** |
| **Net assets acquired attributable to the parent company** | **31,766** |

The Group Management has reviewed the accounting and fair values of the net assets acquired without detecting any further impairment or liability that should be assigned. As part of this review, the Group has drafted a business plan covering the years 2017-2023.

The assumptions underlying the analysis by the Group are as follows:

- A 7-year projection was used, calculating the residual value as perpetual income of a financial year that does not contain cyclical or seasonal information.

**(In thousands of euros)**

- The discount rate used (WACC) was 8.5% after tax.
- The real terminal value growth rate is 0.5% above long-term inflation.

For the cash generating unit, the most important parameters are:

- Net amount of turnover: average increase of 16% from 2018 onwards.
- 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 29% on turnover.
- Investments in fixed assets: no significant investments are expected in the years projected as the assets acquired in the transaction are suitable for the volume of activity covered by the plan.

It is worth noting that the RDT market is a market of value-added products which are normally sold to end customers.

For projections, the Group Management has also considered the results and historical EBITDAs achieved by the companies selling the acquired business.

From the aforementioned analysis of the projections, we obtain an assessment of the CGU's net assets that is somewhat higher than the value of appraisals made by independent experts.

The Group Management has conducted a sensitivity analysis of the plan by reducing the estimated results by 10%, obtaining a value higher than the fair value recorded in the business combination, amounting to approximately 2 million euros. Also, the Group Management conducts an additional sensitivity analysis by increasing the WACC discount rate by 1% and reducing the perpetual growth rate by 0.25%, yielding a similar fair value of assets through the appraisals and which is listed as fair value in the business combination.

Therefore, after the analysis, the negative difference in business combinations has been recorded as income, taking the results of the appraisals received as fair value.

The movement of cash funds in the operation was:

| | **Thousands of euros** |
|---|---|
| Amount paid | 19,543 |
| Cash and cash equivalents in the subsidiary acquired | - |
| **Net cash outflow on acquisition** | 19,543 |

With a view to the coming years and after conducting business under the direction of the Tubos Reunidos Group for just over a year, the new Management of the Group has drawn up a new business plan for the company in the context of the Transforma 360º Plan, which is detailed in note 6.

**(In thousands of euros)**

## 29. Financial income and expenses

| | 2017 | 2016 |
|---|---|---|
| Financial income | | |
| – Income from equity investments and other investment income | 76 | 88 |
| – Net profit /(losses) on foreign currency transactions | (1,145) | 1,363 |
| Financial expenses | | |
| – Interest on loans/bank credits and other external funds | (13,793) | (7,294) |
| Change in fair value of foreign currency derivatives that do not qualify as hedges | (1,446) | (954) |
| | (16,308) | (6,797) |

## 30. Public administrations and income tax

a) Current balances with Public Administrations

The composition of current balances with Public Administration is:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Debtors** | **Creditors** | **Debtors** | **Creditors** |
| Value added tax | 1,872 | 218 | 2,816 | 1,387 |
| Payroll tax | | 1,343 | - | 314 |
| Social Security agencies | 37 | 1,722 | 43 | 1,777 |
| Corporate tax | 102 | 4 | 42 | - |
| Others | 868 | 154 | 293 | - |
| | **2,879** | **3,441** | **3,194** | **3,478** |

b) Reconciliation of accounting income and taxable income

| | 2017 | 2016 |
|---|---|---|
| Current tax | - | - |
| Deferred taxes | 1,847 | 732 |
| | 1,847 | 732 |

The parent Company has filed consolidated tax returns since financial year 1998. The current composition of the tax Group is the following:

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

**(In thousands of euros)**

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:

| | 2017 | 2016 |
|---|---|---|
| Profit before tax | (32,275) | (49,433) |
| Allocated to income tax credits and R&D (Note 24) | (1,556) | (1,602) |
| Consolidation adjustments with no tax effect | (2,500) | (9,723) |
| Permanent differences | 2 | 22 |
| Consolidated basis | (36,329) | (60,736) |

The heading "Consolidation adjustments with no tax effect" which is adjusted for the calculation of the consolidated basis in 2016 corresponds mainly to the negative consolidation difference arising for business combinations (Note 28). In 2017 this corresponds to a provision recorded in the previous year for the possible exit of Almesa from the Group.

c) Composition of tax expense

The composition of expenses from Corporate Tax is as follows:

| | 2017 | 2016 |
|---|---|---|
| Tax calculated at the tax rates applicable to profits of each consolidated company (*), considering permanent differences | 78 | - |
| Regularisation of tax rate in the United States | (1,163) | - |
| Tax deductions generated in the financial year (Note 21) | (2) | (40) |
| Use of non-capitalised taxable income | (78) | - |
| Consolidation adjustments and other items | (682) | (692) |
| Tax expense | (1,847) | (732) |

(*) At 31 December 2017, the earnings of all the Group companies were negative except for one of them (a gain of 0.2 million euros). Companies with negative results have not registered the corresponding tax revenue (as of 31 December 2016 income before taxes of the consolidated companies was negative in all cases, and none of the group companies had registered its respective income tax).

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

| | 2017 | 2016 |
|---|---|---|
| Tubos Reunidos, S.A. | - | - |
| Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal [sole proprietorship]) (TRI) | - | - |
| Productos Tubulares, S.A. (Sociedad Unipersonal) (PT) | - | - |
| Tubos Reunidos Premium Threads, S.L. (TRPT) | (2) | (40) |
| RDT, Inc. | (1,773) | - |
| Other minor areas | 7 | - |
| Consolidation adjustments and other items (*) | (79) | (692) |
| Tax expense | (1,847) | (732) |

(*) In addition to the above-mentioned consolidation adjustments, the allocation to income tax credits is included (Note 24).

Further, we include below the detail of the tax rates applicable to each tax group/company in the financial years 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Basque Country tax group | 28% | 28% |
| Inauxa (**) | - | 28% |
| Almesa y Procalsa (*) | 25% | 25% |
| Edai S.L. y Edai TU (**) | - | 28% |
| Inaumex (**) | - | 30% |
| Inautex (**) | - | 25% |
| TRAME and RDT (U.S.-based companies) (***) | 35% | 35% |
| ACECSA | 28% | 28% |

(*) Companies classified as discontinued operations at 31 December 2016 and sold in the first half of 2017.

(**) Automotive segment companies sold in 2016.

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

In addition to the aforementioned in Note 21, the applicable legislation for paying Corporate Tax from the 2017 financial year is that provided in Law 37/2013 of 13 December of the Provincial Territory of Álava for the Basque Country tax group.

The financial years open to inspection related to the taxes applicable to them vary for 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 2013 and subsequent years would be open for inspection.

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

(In thousands of euros)

## 31. Earnings per share

a) Basic

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

| | 2017 | 2016 |
|---|---|---|
| Profit/(loss) attributable to company shareholders of ongoing operations | (28,828) | (47,593) |
| Average weighted number of nominal shares in circulation (thousands) | 174,301 | 174,370 |
| Basic earnings/(losses) per share (euros per share) | (0.166) | (0.273) |

| | 2017 | 2016 |
|---|---|---|
| Profit/(loss) attributable to company shareholders of discontinued operations | (3,569) | (2,581) |
| Average weighted number of nominal shares in circulation (thousands) | 174,301 | 174,370 |
| Basic earnings/(losses) per share (euros per share) | (0.020) | (0.015) |

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.

## 32. Dividends per share

No distribution of dividends was approved for FY 2017 or 2016.

(In thousands of euros)

## 33. Statement of cash flows

a) Cash generated from operations

In accordance with the provisions of IFRS 5, the cash flow of the discontinued operations have been broken down in Note 14, including in this note 33 the cash generated from both operations (ongoing and discontinued).

| | 2017 | 2016 |
|---|---|---|
| Income for the financial year | (33,997) | (51,237) |
| Adjustments of: | | |
| – Tax (Note 5) | (1,847) | 1,950 |
| – Amortisation of property, plant and equipment (Note 6) | 24,306 | 23,594 |
| - Reversal of impairment of property, plant and equipment | - | (82) |
| – Impairment from assets held for sale (Notes 14) | - | 952 |
| – Amortisation of intangible assets (Note 7) | 3,308 | 3,506 |
| – Amortisation of property investments (Note 8) | 164 | 121 |
| - (Profit)/loss on sale of property, plant and equipment/assets held for sale (Note 27) | (176) | 5,723 |
| - Other income related to fixed assets (subsidies) (Note 24) | (1,556) | (1,602) |
| – Variation in fair value of derivative financial instruments (Note 29) | (1,185) | 954 |
| - Net allocations in provisions (Notes 11, 12 and 22) | (1,373) | (1) |
| – Profit on disposal of investments (Note 14.3) | 1,810 | (3,952) |
| – Income from interest and equity investments (Note 29) | (76) | (88) |
| – Interest expenses (Note 29) | 13,793 | 7,294 |
| – Foreign exchange differences (Note 29) | 3,776 | (1,363) |
| - Other adjustments to income (*) | (1,114) | (8,356) |
| Variations in working capital: | | |
| - Inventories (Note 12) | 9,448 | 4,004 |
| – Clients and others accounts receivable (Note 11) | (9,187) | 17,885 |
| – Change in provisions (payments) (Note 22) | (1,209) | (2,437) |
| – Suppliers and other accounts payable (Note 19) | 15,497 | 10,698 |
| - Other current assets | (46) | (415) |
| Cash generated from operations | 20,336 | 7,148 |

(*) This amount includes the Negative Consolidation Difference in 2016 of 12.2 million euros (Note 28), net of other provisions collected.

Explanatory notes to the cash generated by operations in 2017.

Within the variation in working capital, the following effects of particular relevance were considered:

- Inventories: in calculating the change in working capital of inventories, it is necessary to take into account the disposal of inventories relating to the distribution segment in June 2017 (4.6 million), together with the inventories of this segment at the end of 2016 (5.7 million) (Note 14).

- Customers and other accounts receivable: at 31 December 2016 there are a number of customers within the distribution segment amounting to 1.1 million (Note 14) and the removal of the automotive segment involves a decline in accounts receivable amounting to 3.6 million euros. In addition, the differences in existing exchange rates have been considered.

- Suppliers and other accounts receivable: similarly at 31 December 2016 there are supplier balances within the distribution segment amounting to 2.4 million euros (Note 14) and the removal of the automotive segment amounts to 6.3 million euros.

Explanatory notes to the cash generated by operations in 2016.

Within the variation in working capital, the following effects of particular relevance were considered:

- Inventory: the inventory figure at 31 December 2016 does not include the part classified as a discontinued operation (Note 14). Therefore, in order to calculate the inventory variation we must take into account the removal of the corresponding Automotive segment in July 2016 (10.6 million), together with those in the distribution business at year-end (5.7 million) and the inflow of inventory in the acquisition of RDT (0.8 million).

- Customers and other accounts receivable: at 31 December 2016 there are a number of customers within the distribution segment amounting to 1.1 million (Note 14) and the removal of the automotive segment involves a customer drop amounting to 9.3 million euros. In addition, the differences in existing exchange rates have been considered.

- Suppliers and other accounts receivable: similarly at 31 December 2016 there are supplier balances within the distribution segment amounting to 2.4 million euros (Note 14) and the removal of the automotive segment amounts to 15.4 million euros.

b) Evolution of debt

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

| | 2017 | 2016 |
|---|---|---|
| Long-term borrowings (Note 20) | 211,951 | 149,055 |
| Short-term borrowings (Note 20) | 26,731 | 59,870 |
| Other long-term debt (Note 19.a) (*) | 17,556 | 20,360 |
| Other short-term debt (Note 19.b) (*) | 3,204 | 1,716 |
| **Total borrowings and other debts** | 259,442 | 231,001 |

| | Long-term and short-term borrowings | Other long-term and short-term debt (*) | Total |
|---|---|---|---|
| **Net debt at 1 January 2017** | 208,925 | 22,076 | 231,001 |
| Financing | 212,022 | - | 212,022 |
| Amortisations/payments (**) (***) | (184,960) | (1,660) | (186,620) |
| Variation in accrued interest (Note 20) | (184) | - | (184) |
| Adjustments to income (****) | 2,879 | 344 | 3,223 |
| **Net debt at 31 December 2017** | 238,682 | 20,760 | 259,442 |

(*) Includes soft loans (Note 19).

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

(***) As part of the payments of debt in the statement of cash flows from financing activities, an amount of 1,234,000 euros is included, corresponding to payments from the distribution segment sold during the year and classified as discontinued operations at 31 December 2016.

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

## 34. Contingencies

The Group has contingent liabilities for bank and other guarantees related to the normal course of business with a limit of 4.5 million euros (4.7 million euros in 2016) from which no significant liability is expected to arise. These guarantees correspond mainly to technical guarantees to comply with commercial activities.

## 35. Commitments

a) Commitments from fixed asset purchases

The committed investments in the balance sheet dates (not incurred) amounted to 4.5 million euros in 2017 and 6 million euros in 2016.

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).

## 36. 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 2017 and 2016 with BBVA Group, the Group's main shareholder, broken down by item, as well as the conditions of contracts:

**2017 Financial Year**

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

**2016 Financial Year**

| Item | Balance drawn down | Last maturity | Guarantees |
|---|---|---|---|
| Loans | 44,388 | 2021 | Employees |
| Credit facilities | 2,162 | - | - |
| Discounted bills | - | Annual renewal | Employees |
| Confirming | 15,071 | Annual renewal | Employees |
| Non-recourse factoring | 1,894 | - | Employees |
| | 63,515 | | |

(In thousands of euros)

The amount of interest paid by all of the Group companies to BBVA Group during the 2017 financial year as remuneration for the aforementioned contracts and recorded on the consolidated profit and loss account amounted to 1,817,000 euros (1,089,000 in 2016).

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

b) Transactions with other related parties

| | 2017 | 2016 |
|---|---|---|
| Financial expenses | 209 | 194 |
| | 209 | 194 |

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

c) Loans with other related parties

| | 2017 | 2016 |
|---|---|---|
| Loans with related entities (Note 20) | 6,297 | 6,087 |
| | 6,297 | 6,087 |

d) Compensation to key managerial personnel

The aggregate and annual compensation of the General Managers and similar expenses of all Group companies (managerial staff) who carry out their functions under the direct supervision of the Administrative Bodies, corresponding to ten people since they joined the Group, amounted to 893,000 euros (2016, 1,382,000 euros, 5 people) as outlined in the following table:

| | 2017 | 2016 |
|---|---|---|
| Short-term remuneration and compensation | 893 | 1,382 |
| | 893 | 1,382 |

No post-employment provisions were paid during FY 2017 and 2016, which would correspond to the provisions to the Social Protection System that the Group has in general for the entire staff via defined contributions to a Voluntary Social Welfare Entity (EPSV).

**(In thousands of euros)**

e) <u>Remuneration for shareholders of the Parent Company</u>

The income accrued in the course of the financial years ended 31 December 2017 and 2016 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 1,287,000 euros (2016, 1,009,000 euros). The remuneration is outlined in the table below:

| | **2017** | **2016** |
|---|---|---|
| Salaries | 289 | - |
| Short-term compensation | 998 | 1,009 |
| | 1,287 | 1,009 |

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

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

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

No expenses have been included in 2017 for the valuation of this compensation plan.

In addition, no contribution to social security plans for the benefit of members of the Board of Directors was made in 2016. Furthermore, in financial year 2015, a provision of 290,000 euros was recorded due to the estimation of an increase in the likelihood that the risk of an additional contribution to the social security system of one of the Directors will eventually materialise. The contribution was made in 2017 for the amount provisioned in 2015.

The Group has not committed any additional benefits with its directors, except for possible contributions to the aforementioned pension plan.

The Group has not granted loans to members of the Board of Directors during the 2016 and 2017 financial years.

During the present financial year, the parent company of the Group paid the civil liability insurance premiums of directors amounting to 21,500 euros (2016: 17,500 euros).

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

During the financial year 2017, 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 in their duty to avoid conflicts of interest in the parent Company. Similarly, both board members and persons related to them have refrained from engaging in presumed conflicts of interest provided 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.

## 37. Other information

a) Fees for auditors and their group companies or affiliates

The fees accrued during the year by PricewaterhouseCoopers Auditores, S.L. for the auditing of the accounts were 210,000 euros (2016: 224,500 euros).

The amount for financial years 2017 and 2016 also includes the audit services of interim annual accounts.

In 2017, additional invoices for an amount of 7,000 euros were generated by other companies which used the tax advisory services of PwC for transfer pricing purposes (2016, 21,900 euros).

The fees accrued during the year by other auditors of the subsidiaries for the audit of accounts and other verification services amounted to 52,000 euros (2016: 34,000 euros).

b) Environmental issues

Within its property, plant and equipment assets, the Group has facilities which aim at protecting and improving the environment, also carrying out work with its own staff and with the support of specialised external companies, all as part of the environmental strategic plan in which the Group is involved to minimise environmental risks associated with its activity and to improve its environmental management. The amounts of both investments made and expenses accrued in 2017 to protect and improve the environment amounted to 159,000 and 1,324,000 euros (2016, 127,000 and 1,592,000 euros) respectively, and they are recorded under the corresponding "Property, plant and equipment" heading of assets in the accompanying consolidated balance sheet and under "Other expenses" in the accompanying consolidated profit and loss account.

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 $CO_2$.

**(In thousands of euros)**

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 2017, the amount of the costs of emission allowances consumption, which were recorded as a counterpart to the corresponding provision (Note 22), amounted to 483,000 euros (2016: 547,000 euros).

The estimation of consumption of allowances for 2017 shall not exceed the allowances allocated. Allowances consumed in the financial year 2016 did not exceed the allowances allocated.

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

## 38. Subsequent events

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

## CONSOLIDATED MANAGEMENT REPORT 2017
**(In thousands of euros)**

### 1. Development and business results

#### a. Financial and non-financial key indicators

The activity of Tubos Reunidos in 2017 was developed in a context that continues to be marked by the transformational change that is taking place in our sector, in which high overcapacity (much of it coming from low-cost manufacturing countries), the slower growth in the demand for pipes, the greater demands of customers who, with technological advances in their installations, demand greater performance from the pipes, and the price pressures that imply strong reductions in profitability, are leading to changes in the business and corporate models of pipe manufacturers. Companies are implementing radical efficiency plans, closing unprofitable capacity and opening new capacity in more competitive areas, and developing new product and service solutions that will enable them to achieve differentiation and better positioning in the market.

With the collapse of oil prices beginning in 2014, when the price of the Brent barrel fell by 76 percent from its peak in 2014 to a low of USD 27.60/barrel in January 2016, there was an unprecedented reduction in the level of global investment in oil and gas drilling and production, which reached 25 percent per year in 2015 and 2016, and in the demand for seamless pipes in this and other segments of the energy, generation, refining and petrochemical sectors. Consequently, the production of seamless steel pipes and tubes decreased by 20% worldwide and 58% in North America in the 2014-2016 period.

However, oil prices have recovered from their 2016 low to close at USD 64.37/barrel at the end of 2017. This increase has led to a rebound in investment in shale drilling in North America and thus demand for OCTG pipe in this market. However, with oil still more than 40% below pre-crisis levels, with the slowdown in Chinese economic growth, demand for piping in 2017, although higher than in 2016, has remained significantly lower than before the crisis. To this decline in global demand we must add the fall in prices in the 2014-2017 period, despite the recovery in 2017. Prices are also much lower than before the crisis, due to the excess installed capacity at a global level, largely from low-cost areas, as well as the greater demands of customers who, with more technologically advanced processes, require greater technical performance and lower prices.

In addition, during 2017, there was a quarter-on-quarter increase in the cost of scrap used in the manufacture of pipes, with the average price in 2017 increasing by 40% over the 2016 average, which, in a context of high competition coupled with the use of other raw materials by manufacturers, has led to a further narrowing of margins.

The continued depreciation of the dollar from USD 1.05/euro at the end of 2016 to USD 1.20/euro at the end of 2017 has had a negative effect on the profitability of pipe manufacturers with costs in euros, such as Tubos Reunidos.

In this sector context, in 2017 Tubos Reunidos started its Transforma|360$^0$ Value Creation Plan, which involves a competitive adaptation plan with a restructuring of the business and corporate model that aims to obtain the levels of profitability and cash flow generation necessary to guarantee its future sustainability as a manufacturer of high-end seamless pipes based in the Basque Country, with a target ROCE[1] exceeding 7%.

In a first phase of 360$^0$ analysis, taking as a reference the best practices of the sector worldwide, Tubos Reunidos identified a potential for improvement of the operating result (EBITDA) of 45 million euros, on a base EBITDA[2] and a reduction in working capital needs of 35 million euros. In a second phase, the Company completed a process of deployment of initiatives, with the involvement of the entire organisation, which confirmed the potential identified and formed the implementation plan that began at the end of the first half of 2017 and will last 24 months including:

- **A new margin-oriented commercial management:** with the strengthening of customer value engineering focused on a more simplified and optimised high-end product portfolio, incorporating a pricing policy aligned with the level of services.

- **Improvement in productivity and costs through the search for operational efficiency:**

  - ✓ **Manufacturing efficiency:** through the implementation of Lean manufacturing processes, with an increase in the productivity of industrial equipment and operators, accompanied by a redefinition of the maintenance strategy in plants.

  - ✓ **Optimisation of technical processes:** with improvements in the consumption and performance of raw materials, energy and other consumables, as well as through the reduction of waste during steel and pipe manufacturing processes.

  - ✓ **Reduction of procurement costs:** through improvements in purchasing processes and processes involving scrap, energy, consumables and other supplies.

  - ✓ **Reduction of general and structural costs:**

    - Unification, consolidation and rationalisation of the business support functions at Group level and activation of overhead austerity policies.

    - Optimisation of management processes and business support systems.

- **Minimisation of the levels of working capital** required for the activity and customer service (raw materials, product in process and finished product).

[1] ROCE (Return on capital employed): EBIT(1-Tax Rate)/Capital employed

[2] *Base EBITDA: 2014 TMs, 2017 prices and product mix.*

- **Industrial reconfiguration of the Group by optimising production units** and eliminating value-destroying production processes.

Against this backdrop, and focused on the execution of the transformation plan, Tubos Reunidos obtained a net turnover of 312.5 million euros, a 60.4% increase over the same period in 2016, when net turnover stood at 194.9 million euros. This increase occurred mainly in North America, both in terms of volumes and prices, with an increase of 225% in 2017 compared to 2016 and 234% in the fourth quarter compared to the same period in 2016, supported by the OCTG segment, where the Company captured the market growth derived from the recovery of investment in exploration and production of oil and shale gas throughout the year.

During 2017, Tubos Reunidos has been producing at a high production capacity utilisation rate, with a 45% increase in tons sold in 2017 and a 45% increase in the fourth quarter compared to the same period last year. The prices of the products sold were higher than in 2016, although this increase was due to the increase in production costs and higher value in OCTG, given the integration of threading and finishing processes in the Group's own facilities in the USA added at the end of 2016, and to the greater weight of more specialised and value-added pipes in the portfolio of products sold.

EBITDA (*) (note 5 to the Consolidated Annual accounts) for 2017 totals 11.8 million euros, an increase of 27.3 million euros, or 176.1%, on the 15.5-million-euro negative amount obtained in 2016.

(*) Calculated as the operating result plus the amortisation expense plus the impairment on property, plant and equipment.

In the year as a whole, the increase with respect to 2016 is supported by the greater use of production capacity, which leads to a reduction in the costs of underactivity obtained in 2016, as well as by a product mix that is better suited to the production plants and to the improvements in productivity and efficiency derived from the implementation of the Transforma|360$^0$ Plan.

Although the EBITDA margin on sales in 2017 has been decreasing quarter-on-quarter to 3.8% for the year as a whole, due to the fact that the positive effects of higher production and sales volumes are offset by the negative effects of the continued increase in raw material prices (both scrap and ferro-alloys), the greater depreciation of the dollar against the euro and the higher costs of the new production facilities at the TRPT threading plant, influenced by new developments of premium threads in search of a better positioning in the market.

**TUBOS REUNIDOS, S.A. AND SUBSIDIARIES**

**CONSOLIDATED MANAGEMENT REPORT 2017**
**(In thousands of euros)**

The net result in 2017 was a negative amount of 32.4 million euros, 17.8 million euros higher than the negative result obtained in 2016. The improvement in EBITDA for the year as a whole with respect to 2016 is not fully reflected in net income due to the increase in financial costs and the worse result from exchange rate differences due to the depreciation of the dollar.

In addition, in 2017 Tubos Reunidos completed its strategic objective of concentrating on its core business as a global supplier of seamless pipe solutions.

**b. Issues relating to the environment and the workforce**

Throughout 2017, the Human Capital Management Department, in line with the rest of the areas of the company and in light of the current economic situation, has developed a people and resources management strategy aimed at achieving the objectives of Tubos Reunidos.

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

The Company has continued to invest in talent management, dedicating a large number of resources and hours to the training of its professionals in order to correctly adapt to the skills required for the job descriptions. Specifically, the average number of hours of training per person exceeded 14 in 2017.

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

Another priority focus has been on knowledge management, both through the recruitment of professionals with expertise suited to the current requirements of the business, and in relation to the plan to rejuvenate the workforce through partial retirements and replacement contracts. This measure gives our professionals the opportunity to partially bring forward the retirement age and, on the other hand, provides quality permanent jobs for the people who replace them. Specifically, 21 new contracts of this type were signed by the company this year, affecting our two large entities, TRI and PT.

Among the cost optimisation measures required by the current situation, the voluntary salary reductions of the Board of Directors, executive staff and a large part of the management team have been maintained.

With regard to the Environment, Tubos Reunidos has the permanent objective of respecting it, with a balance between its activity and sustainable development, incorporating the tools that allow us to advance towards continuous improvement in environmental matters. In this regard, the objectives and targets set out in the 2002-2020 Basque Environmental Sustainable Development Strategy for 2017 have been met.

## 2. Liquidity and capital funds

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

On 12 May 2017, the Group signed a syndicated loan for 208 million euros with Banco Bilbao Vizcaya Argentaria, Banco Santander, Banco Popular Español, Kutxabank, Banco de Sabadell, Caixabank, Caja Rural de Navarra, Bankoa, Bankinter and Instituto de Crédito Oficial Entidad Pública Empresarial. The new financing has a maturity of five and a half years under competitive market conditions and is intended to reorganise the Company's existing financing.

In addition, in July 2017, a Group company signed a 10-million-euro equity loan with Ekarpen, a venture capital company, to support the Group's growth and development in the US through its subsidiary RDT, Inc., acquired by the Group in 2016.

Finally, in order to diversify its sources of financing, in November 2017 the Group incorporated a programme to issue promissory notes on the Alternative Fixed Income Market (MARF) with a maximum outstanding balance of 40 million euros, allowing for the first issues in December 2017.

In December 2017, net financial debt amounted to 213.0 million euros, 18.3 million euros higher than at 31 December 2016 (194.7 million euros).

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

| | 2017 | 2016 |
|---|---|---|
| Borrowings (long term + short term) | 238,682 | 208,925 |
| - Loans with related entities (Note 20) | (6,297) | (6,087) |
| - Other current financial investments | (1,997) | (520) |
| - Asset-based derivative financial instruments | (402) | - |
| - Cash and cash equivalents | (16,999) | (7,620) |
| **NET FINANCIAL DEBT** | **212,987** | **194,698** |

The Group's working capital at December 2017 amounted to 18.6 million euros, a decrease of 12.1 million euros compared to December 2016 (30.7 million euros).

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

| | 2017 | 2016 |
|---|---|---|
| Inventories | 95,234 | 101,921 |
| Trade receivables - Net (note 11) | 18,445 | 13,656 |
| Suppliers (note 19 b) | (84,266) | (73,606) |
| Outstanding remuneration (note 19 b) | (2,862) | (4,642) |
| Advances from customers (note 19 b) | (4,539) | (3,176) |
| Accounts payable to public institutions (note 30) | (3,441) | (3,478) |
| **WORKING CAPITAL** | **18,571** | **30,675** |

Payments for investments during 2017 amounted to 20.4 million euros.

As detailed in note 19 b) of the 2017 consolidated report and on the Tubos Reunidos website, the average payment period for suppliers is 87 days. The Company has launched a set of measures that are aimed primarily at identifying deviations through monitoring and periodic analysis of accounts payable to suppliers and the review of internal management procedures and conditions defined in the commercial operations subject to applicable regulations.

## 3. Main risks and uncertainties

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

## 4. 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.

## 5. Information on the foreseeable development of the Company

At the beginning of 2018, market conditions continue to be positive in the North American OCTG segment, supported by the stabilisation of oil and gas prices above levels where shale technology is profitable following technological improvements. While there are uncertainties regarding possible measures by President Trump that could include tariffs and/or quotas on steel imports to the U.S. market, these could affect Tubos Reunidos' business in the region.

The recovery in other markets and products remains weak, still far from the levels before the oil crisis that began in 2014. The rise in the cost of scrap and the depreciation of the dollar continue to be negative factors in 2018.

In 2018, Tubos Reunidos maintained its management priority in the execution of Transforma|360º and in the orientation towards cash generation, as well as in the implementation of the new business model that would guarantee the viability of the Company.

## 6. R&D investment and activities

2017 was a year characterised by further cutbacks in investment of the Group once the investment plan for new products and productive processes was completed in 2015, which was the objective of the Tubos Reunidos's Strategic Plan.

The investments made in 2017 were focused on improvements from the point of view of PRL, completing the repairs caused by the fire in the pickling area of the Tubos Reunidos Industrial plant and investments focused on improving the process (productivity, etc.) in line with the TRANSFORMA plan.

Tubos Reunidos Industrial continued to develop the projects it had been working on in previous years. In the OCTG area, developments have been made within the last year in the TR-Premium 2015-17 project, which was approved by the Etorgai programme and whose objective is to develop two new high-performance proprietary grades for corrosion resistance in H2S and CO2 media. Work has also been carried out in parallel last year on the Energinox 2016-17 project, approved by the Hazitek and Etorgai programmes. The objective of this project is to study the feasibility of manufacturing austenitic steels at the TRI plant and in parallel the development of a new composition within TP304H grade for boilers with a creep resistance that is 15% better than the market standard.

In Productos Tubulares, two ongoing projects were further developed for the extension of the dimensional range (DIM BERRI approved by Hazitek and CDTi) and for the development of Pilger lamination processes with new materials (NEW_ALEX approved by CDTi). All of this is supported by the Productos Tubulares Engineering department with the collaboration of technology centres, universities and other specialists in R&D&I.

### 7. Acquisition and disposal of treasury shares

During 2017, 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 conclusion, during 2017, 5,999,339 treasury shares were purchased and 5,972,827 were sold, with treasury stock balance as of 31 December standing at 438,536 shares.

ANNEX I

# CORPORATE GOVERNANCE REPORT
# OF LISTED LIMITED LIABILITY COMPANIES

## ISSUER'S IDENTIFICATION DETAILS

| | |
|---|---|
| **END DATE OF RELATIVE FINANCIAL YEAR** | 31/12/2017 |
| **T.I.N.** | A-48011555 |

| **COMPANY NAME** |
|---|
| TUBOS REUNIDOS, S.A. |

| **COMPANY DOMICILE** |
|---|
| BARRIO SAGARRIBAI, S/N°, (AMURRIO) ALAVA |

## CORPORATE GOVERNANCE REPORT
## OF LISTED LIMITED LIABILITY COMPANIES

# A OWNERSHIP STRUCTURE

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

| Date of last modification | Share capital (€) | Number of shares | Number of rights to vote |
|---|---|---|---|
| 04/02/2008 | 17,468,088.00 | 174,680,888 | 174,680,888 |

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

Yes ☐ No ☒

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

| Name or company name of the shareholder | Number of direct rights to vote | Number of indirect rights to vote | % of the total rights to vote |
|---|---|---|---|
| MS. CARMEN DE MIGUEL NART | 6,666,218 | 0 | 3.82% |
| MR. SANTIAGO YBARRA CHURRUCA | 0 | 5,819,474 | 3.33% |
| MR. EMILIO YBARRA CHURRUCA | 0 | 5,819,474 | 3.33% |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | 7,870,573 | 3,583,770 | 6.56% |
| BANCO BILBAO VIZCAYA ARGENTARIA, S.A. | 0 | 25,975,018 | 14.87% |
| ALANTRA ASSET MANAGEMENT SGIIC, S.A. | 0 | 15,793,447 | 9.04% |
| CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP | 0 | 17,857,683 | 10.22% |

| Name or company name of the indirect owner of the holding | Via: Name or company name of the direct owner of the holding | Number of rights to vote |
|---|---|---|
| MR. SANTIAGO YBARRA CHURRUCA | SATURRARAN | 5,819,474 |
| MR. EMILIO YBARRA CHURRUCA | ELGUERO, S.A. | 5,819,474 |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | MR. ALFONSO BARANDIARAN OLLEROS | 900,335 |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | MR. GUIILERMO BARANDIARAN OLLEROS | 569,484 |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | MS. MARIA BARANDIARAN OLLEROS | 572,869 |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | MS. ALEJANDRA LUCA DE TENA OYARZUN | 1,282 |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | GUESINVER, SICAV S.A. | 1,040,000 |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | VIKINVEST,SICAVS.A. | 497,400 |
| MR. JOAQUIN GOMEZ DE OLEA MENDARO | GESLURAN SL | 2,400 |
| BANCO BILBAO VIZCAYA ARGENTARIA, S.A. | BANCO INDUSTRIAL DE BILBAO, S.A. | 25,975,018 |
| ALANTRA ASSET MANAGEMENT SGIIC, S.A. | EQMC EUROPE DEVELOPMENT CAPITAL FUND PLC | 1,320,416 |
| ALANTRA ASSET MANAGEMENT SGIIC, S.A. | QMC II IBERIAN, S.L. | 831,537 |
| ALANTRA ASSET MANAGEMENT SGIIC, S.A. | EQMC FIL | 238,148 |
| ALANTRA ASSET MANAGEMENT SGIIC, S.A. | QMC II IBERIAN CAPITAL FUND FIL | 13,403,346 |
| CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP | MR. ALFONSO ZORRILLA DE LEQUERICA PUIG | 1,925,946 |
| CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP | MS. MERCEDES PUIG PEREZ DE GUZMAN | 10,153,899 |

| Name or company name of the indirect owner of the holding | Via: Name or company name of the direct owner of the holding | Number of rights to vote |
|---|---|---|
| CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP | MS. MERCEDES ZORRILLA DE LEQUERICA PUIG | 1,925,946 |
| CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP | MS. LETICIA ZORRILLA DE LEQUERICA PUIG | 1,925,946 |
| CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP | MS. PILAR ZORRILLA DE LEQUERICA PUIG | 1,925,946 |

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

A.3 Complete the following tables on the members of the company's board of directors who possess the right to vote of the company's shares:

| Name or company name of the director | Number of direct rights to vote | Number of indirect rights to vote | % of the total rights to vote |
|---|---|---|---|
| MR. FRANCISCO JOSE ESTEVE ROMERO | 100 | 0 | 0.00% |
| MR. ENRIQUE PORTOCARRERO ZORRILLA LEQUERICA | 806,346 | 0 | 0.46% |
| MR. JORGE GABIOLA MENDIETA | 245,000 | 25,576 | 0.15% |
| MR. ALFONSO BARANDIARAN OLLEROS | 900,335 | 2,400 | 0.52% |
| MS. LETICIA ZORRILLA DE LEQUERICA PUIG | 1,925,946 | 0 | 1.10% |

| Name or company name of the indirect owner of the holding | Via: Name or company name of the direct owner of the holding | Number of rights to vote |
|---|---|---|
| MR. JORGE GABIOLA MENDIETA | MS. MARIA BELEN BARAINCA VICINAY | 25,144 |
| MR. JORGE GABIOLA MENDIETA | MR. JORGE GABIOLA BARAINCA | 144 |
| MR. JORGE GABIOLA MENDIETA | MS. MARIA GABIOLA BARAINCA | 144 |
| MR. JORGE GABIOLA MENDIETA | MS. MARTA GABIOLA BARAINCA | 144 |
| MR. ALFONSO BARANDIARAN OLLEROS | GESLURAN SL | 2,400 |

| | |
|---|---|
| **% total of rights to vote held by the board of directors** | 2.23% |

Complete the following tables on the members of the company's board of directors who possess rights over the company's shares:

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:

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:

A.6 Indicate whether shareholders' agreements that affect the company 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 ☐

**Percentage of share capital affected:**6.56%

**Brief description of consortium:**

TACIT CONCERTED ACTION BARANDIARAN GROUP

| Participants in consortium |
|---|
| MR. JOAQUIN GOMEZ DE OLEA MENDARO |
| MR. ALFONSO BARANDIARAN OLLEROS |
| MR. GUIILERMO BARANDIARAN OLLEROS |
| MS. MARIA BARANDIARAN OLLEROS |
| MS. ALEJANDRA LUCA DE TENA OYARZUN |
| GUESINVER, SICAV S.A. |
| VIKINVEST,SICAVS.A. |
| GESLURAN SL |

**Percentage of share capital affected:** 10.22%

**Brief description of consortium:**

CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP

| Participants in consortium |
|---|
| MS. PILAR ZORRILLA DE LEQUERICA PUIG |
| MS. LETICIA ZORRILLA DE LEQUERICA PUIG |
| MS. MERCEDES ZORRILLA DE LEQUERICA PUIG |
| MS. MERCEDES PUIG PEREZ DE GUZMAN |
| MR. ALFONSO ZORRILLA DE LEQUERICA PUIG |

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

No changes took place in 2017

A.7 Indicate of there is an individual or legal entity that exercises or can exercise control over the company in accordance with Article 4 of the Securities Market Act. If so, identify them:

Yes ☐ No ☒

| Observations |
|---|

A.8 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 |
|---|---|---|
| 0 | 438,536 | 0.25% |

**(*) Via:**

| Name or company name of the direct owner of the holding | Number of direct shares |
|---|---|
| CLIMA, S.A. | 438,536 |
| **Total:** | 438,536 |

Describe the significant variations, in accordance with the provisions of Royal Decree 1362/2007, that took place in the year:

| Explain the significant variations |
|---|
| A) ON 30 JANUARY 2017, THE CNMV WAS INFORMED OF THE PURCHASE OF 1,726,96 SHARES (0.99%).<br>B) ON 07 APRIL 2017, THE CNMV WAS INFORMED OF THE PURCHASE OF 1,696,662 SHARES (0.97%).<br>C) ON 19 JUNE 2017, THE CNMV WAS INFORMED OF THE PURCHASE OF 1,626,466 SHARES (0.93%).<br>D) ON 14 NOVEMBER 2017, THE CNMV WAS INFORMED OF THE PURCHASE OF 1,683,306 SHARES (0.96%). |

## A.9 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 SHAREHOLDERS' MEETING HELD ON 22 JUNE 2017 ADOPTED THE FOLLOWING AGREEMENT:

Five.- Point of Agenda.- Authorisation of the Board of Directors to purchase treasury shares by the Company and the subsidiary companies of same, overruling the previous authorisation.

Authorise 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. It is agreed that the authorisation granted in the General Meeting of 29 June 2016 shall be overruled with regard to any unimplemented parts. The purchase transactions for treasury shares shall be conducted in accordance with the conditions established in the applicable legislation at all times.

## A.9.bis Estimated floating capital:

| | % |
|---|---|
| **Estimated floating capital** | 49.00 |

## A.10 Indicate whether there is any restriction on the transferability of securities and/or any restriction on the right to vote. In particular, the existence of any type of restriction that might impede a take-over of the company through share purchase on the market should be mentioned.

Yes ☐ No ☒

## A.11 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.12 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 ☒

Describe in which way it is different from the system provided for in the CCA.

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

THE RULES APPLICABLE TO THE MODIFICATION OF ARTICLES ARE THOSE PROVIDED FOR IN THE CAPITAL COMPANIES ACT WITH NO SPECIAL FEATURE REGARDING IN THIS REGARD.

B.4 Indicate the details of attendance at general shareholders' meetings held in the financial year referred to in this report and in the previous year:

| General meeting date | Details of attendance | | | | |
|---|---|---|---|---|---|
| | % physical presence | % in representation | % distance voting | | Total |
| | | | Electronic vote | Others | |
| 29/06/2016 | 32.26% | 30.17% | 0.00% | 0.00% | 62.43% |
| 22/06/2017 | 34.87% | 28.91% | 0.00% | 0.00% | 63.78% |

B.5 Indicate whether there is any statutory restriction that sets a minimum number of shares required to attend the general shareholders' meeting:

Yes ☐ No ☒

B.6 Section removed.

B.7 Indicate the address and mode of access at the company's website to the information about corporate governance and other information about the general shareholders' meetings that should be made available to the shareholders via the company's website.

THE COMPANY'S WEBSITE IS WWW.TUBOSREUNIDOS.COM AND THE INFORMATION ABOUT CORPORATE GOVERNANCE IS INCLUDED IN THE SECTION ON INFORMATION FOR SHAREHOLDERS AND INVESTORS

## C STRUCTURE OF COMPANY ADMINISTRATION

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors stipulated in the articles of incorporation:

| | |
|---|---|
| **Maximum number of directors** | 14 |
| **Minimum number of directors** | 5 |

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

| Name or company name of the director | Representative | Category of director | Post within the board | Date of first appointment | Date of final appointment | Election procedure |
|---|---|---|---|---|---|---|
| MR. FRANCISCO JOSE ESTEVE ROMERO | | Nominee | DIRECTOR | 30/01/2008 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MR. ENRIQUE PORTOCARRERO ZORRILLA LEQUERICA | | Nominee | DIRECTOR | 28/05/2002 | 08/05/2014 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MR. JORGE GABIOLA MENDIETA | | Independent | INDEPENDENT COORDINATING DIRECTOR | 30/05/2013 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MR. EMILIO YBARRA AZNAR | | Nominee | 1st DEPUTY CHAIRMAN | 16/08/1999 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MR. ALFONSO BARANDIARAN OLLEROS | | Nominee | DIRECTOR | 27/09/2013 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MS. ANA ISABEL MUÑOZ BERAZA | | Independent | DIRECTOR | 07/05/2015 | 07/05/2015 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MS. LETICIA ZORRILLA DE LEQUERICA PUIG | | Nominee | DIRECTOR | 29/06/2004 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| QMC DIRECTORSHIPS, S.L. | MR. JACOBO LLANZA | Nominee | DIRECTOR | 08/05/2014 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MR GUILLERMO ULACIA ARNAIZ | | Chairman | CHAIRMAN | 07/02/2017 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |
| MR JUAN MARIA ROMAN GONCALVES | | Independent | DIRECTOR | 22/06/2017 | 22/06/2017 | GENERAL SHAREHOLDERS' MEETING AGREEMENT |

| | |
|---|---|
| **Total number of directors** | 10 |

Indicate the number of terminations that have occurred amongst the board of directors during the period in question:

| Name or company name of the director | Category of the director at the time of termination | Termination date |
|---|---|---|
| MR. ALBERTO JOSE DELCLAUX DE LA SOTA | Other External | 22/06/2017 |
| MR. ROBERTO VELASCO BARROETABEÑA | Independent | 22/06/2017 |
| MR. PEDRO ABASOLO ALBONIGA | Other External | 21/12/2017 |

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 | Post in organisation chart of the company |
|---|---|
| MR. GUILLERMO ULACIA ARNAIZ | EXECUTIVE CHAIRMAN |

| | |
|---|---|
| **Total number of executive directors** | 1 |
| **% of the total of the board** | 10.00% |

## NOMINEE EXTERNAL DIRECTORS

| Name or company name of the director | Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment |
|---|---|
| MR. FRANCISCO JOSE ESTEVE ROMERO | BANCO BILBAO VIZCAYA ARGENTARIA, S.A. |
| MR. ENRIQUE PORTOCARRERO ZORRILLA LEQUERICA | CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP |
| MR. EMILIO YBARRA AZNAR | MR. EMILIO YBARRA CHURRUCA |
| MR. ALFONSO BARANDIARAN OLLEROS | MR. JOAQUIN GOMEZ DE OLEA MENDARO |
| MS. LETICIA ZORRILLA DE LEQUERICA PUIG | CONCERTED ACTION ZORRILLA LEQUERICA PUIG GROUP |
| QMC DIRECTORSHIPS, S.L. | ALANTRA ASSET MANAGEMENT SGIIC, S.A. |

| | |
|---|---|
| **Total number of nominee directors** | 6 |
| **% of the total of the board** | 60.00% |

## INDEPENDENT EXTERNAL DIRECTORS

### Name or company name of the director:

MR. JORGE GABIOLA MENDIETA

**Profile:**

Lawyer practising exclusively for the Tubos Reunidos Group.
Graduate in Law from the University of Deusto.

Commenced his professional career in the auditing division of Arthur Andersen and then passed on to the legal and tax department of the same company. In 1986, he joined Tubos Reunidos where he took on a number of responsibilities until 1996 when he was appointed Secretary of the Board of Directors of the parent company, which is the post he has occupied up to the present day.

He is also Secretary of the Delegate Committee, the Audit Committee and the Committee of Appointments and Remuneration, he has also served as Secretary and Member of the Board of Directors of the following Group Companies: Productos Tubulares and Almacenes Metalúrgicos.

He is registered at the Official Registry of Auditors as non-practising.

### Name or company name of the director:

MS. ANA ISABEL MUÑOZ BERAZA

**Profile:**

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 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 has been an Independent Director and Chair of the Audit Committee of NATRA, S.A. She is also a director of other unlisted companies.

### Name or company name of the director:

MR. JUAN MARIA ROMAN GONCALVES

**Profile:**

Graduate in Business Management and Administration from the University of Deusto (Bilbao). His entire professional career has taken place within the world of auditing, twenty seven years of which have been as Partner, working as a Managing Partner of the Northern Area of EY, Manager of the Utilities sector in Spain and Member of the Executive Committee of E&Y-Auditoria. For several years, he occupied the post of CEO of Human Resources at Ernst & Young España and then occupied the Area management post (Italy, Spain and Portugal).
He is currently a member of the Board of Directors and Chairman of the Audit Committee of the listed company Global Dominion Access and director of the Basque business group, Grupo Erhardt, member of the Board of Directors of APD North Area and treasurer of a foundation of social and cultural interest.

| | |
|---|---|
| **Total number of independent directors** | 3 |
| **% total of board** | 30.00% |

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 said relation.

No 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 2017 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 said 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.

## OTHER EXTERNAL DIRECTORS

The other external directors shall be identified and reasons shall be given as to why they cannot be regarded as nominees or independent directors along with their links with the company, its directors or its shareholders:

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

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

| | Number of female directors | | | | % of total female directors of each type | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial Year 2017 | Financial Year 2016 | Financial Year 2015 | Financial Year 2014 | Financial Year 2017 | Financial Year 2016 | Financial Year 2015 | Financial Year 2014 |
| **Executive** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Nominee** | 1 | 1 | 1 | 1 | 10.00% | 9.09% | 7.69% | 9.00% |

| | Number of female directors | | | | % of total female directors of each type | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial Year 2017 | Financial Year 2016 | Financial Year 2015 | Financial Year 2014 | Financial Year 2017 | Financial Year 2016 | Financial Year 2015 | Financial Year 2014 |
| **Independent** | 1 | 1 | 2 | 0 | 10.00% | 9.09% | 15.38% | 0.00% |
| **Other External** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Total:** | 2 | 2 | 3 | 1 | 20.00% | 18.18% | 23.08% | 9.00% |

C.1.5 Explain the measures taken to include a number of women in the board of directors to enable a balanced proportion of men and women.

| Explanation of the measures |
|---|
| 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 Committee of Appointments and Remuneration 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 2017, the percentage of women on the Board was 20%, which is an increase in comparison to 2016. |

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:

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

C.1.6-bis 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.

| Explanation of the conclusions |
|---|
| The Committee of Appointments and Remuneration has expressly declared, recorded in the minutes and informed the Board that in all cases it sets out to ensure that when there are vacant posts in the Board or management team, the selection process does not involve any implicant biases that could impede women from being selected. The percentage of female directors increased to 20% in 2017, which is a step forwards towards the objective of at least 30% in 2020. |

C.1.7 Explain the way in which shareholders with significant holdings are represented in the board.

At the end of 2017 the shareholders with significant holdings represented on the board are as follows: 1.- The BBVA has one representative, Mr.Esteve; 2.- The Zorrilla Lequerica Group has two representatives, Ms. Leticia Zorrila de Lequerica and Mr. Enrique Portocarrero Zorrilla-Lequerica; 3.- NMAS1 (Now ALANTRA) has one representative, "QMC Directorships, S.L." represented by Mr. Jacobo Lianza; 4.- The Barandiarán Group has one representative, Mr. Alfonso Barandiarán and 5.- Mr. Emilio Ybarra Churruca has one representative, Mr. Emilio Ybarra Aznar.

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

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

Yes ☐ No ☒

C.1.9 State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the board and by what means and, in the event that he/she gave reasons in writing to the full board, describe at least the reasons given by the director:

**Name of director:**

MR. PEDRO ABASOLO ALBONIGA

**Reason for the resignation:**

On 21 December 2017, Mr. Pedro Abasólo Alboniga, who had been reappointed as Director and Chairman on 22 June 2017, with the aim of completing the orderly process of planned succession of the vice-chairmanship, presented his voluntary resignation and Mr. Guillermo Ulacia, who was Vice-Chairman up to then, was appointed as Executive Chairman of the Board of Directors.

The change of the chairmanship of the Company that had been anticipated in the relevant details sent to the CNMV on 26 October 2017 was formalised on 21 December 2017.

C.1.10 Indicate, when they exist, any powers that are delegated to the chief executive officer(s):

C.1.11 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 | Post | Does he/she have executive duties? |
|---|---|---|---|
| MR. JORGE GABIOLA MENDIETA | CLIMA. S.A. | REPRESENTATIVE NATURAL PERSON OF THE SOLE ADMINISTRATOR LEGAL ENTITY (TUBOS REUNIDOS, S.A.) | NO |
| MR. GUILLERMO ULACIA ARNAIZ | TUBOS REUNIDOS INDUSTRIAL S.L.U. | Co-Administrator | YES |

| Name or company name of the director | Company name of the group entity | Post | Does he/she have executive duties? |
| --- | --- | --- | --- |
| MR. GUILLERMO ULACIA ARNAIZ | PRODUCTOS TUBULARES, S.A. | Co-Administrator | YES |
| MR. GUILLERMO ULACIA ARNAIZ | ACEROS CALIBRADOS, S.A. (ACECSA) | Co-Administrator | YES |
| MR. GUILLERMO ULACIA ARNAIZ | TUBOS REUNIDOS APLICACIONES TUBULARES ANDALUCÍA (TRANDSA) | Co-Administrator | YES |
| MR. GUILLERMO ULACIA ARNAIZ | TUBOS REUNIDOS SERVICES S.L. | Co-Administrator | YES |
| MR. GUILLERMO ULACIA ARNAIZ | TUBOS REUNIDOS COMERCIAL, S.A. | Co-Administrator | YES |
| MR. GUILLERMO ULACIA ARNAIZ | TUBOS REUNIDOS PREMIUM THREADS, S.L. | Chairman | NO |
| MR. GUILLERMO ULACIA ARNAIZ | APLICACIONES TUBULARES, S.L. | Co-Administrator | YES |
| MR. GUILLERMO ULACIA ARNAIZ | RDT, Inc. | Sole Administrator | YES |

C.1.12 Indicate any directors who are members of the board of directors of other companies listed on official stock markets, other than group companies, of which the company has been notified:

| Name or company name of the director | Company name of the group entity | Post |
| --- | --- | --- |
| MR. EMILIO YBARRA AZNAR | ELEONOR, S.A. | DIRECTOR |
| MS. ANA ISABEL MUÑOZ BERAZA | NATRA, S.A. | DIRECTOR |
| QMC DIRECTORSHIPS, S.L. | CIE AUTOMOTIVE, S.A. | DIRECTOR |
| QMC DIRECTORSHIPS, S.L. | ADVEO GROUP INTERNATIONAL, S.A. | DIRECTOR |
| MR. JUAN MARIA ROMAN GONCALVES | GLOBAL DOMINION ACCESS, S.A. | DIRECTOR |

C.1.13 Indicate and, where appropriate, explain whether the company has established rules on the number of boards that the directors can form a part of:

Yes ☐ No ☒

C.1.14 Section removed.

C.1.15 Indicate the overall remuneration of the board of directors:

| | |
| --- | --- |
| **Remuneration of the board of directors (thousands of euros)** | 1,287 |
| **Amount of the rights accumulated by the current directors with regard to pensions (thousands of euros)** | 0 |
| **Amount of the rights accumulated by the previous directors with regard to pensions (thousands of euros)** | 0 |

C.1.16 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 | Post |
|---|---|
| MR. CARLOS LOPEZ DE LAS HERAS | DIRECTOR OF PLANNING AND BUSINESS DEVELOPMENT |
| MR. JAVIER LÓPEZ NIETO | DIRECTOR OF TECHNOLOGY, QUALITY AND ENVIRONMENT |
| MR. JOSÉ MANUEL ITURRIAGA ARRILLAGA | DIRECTOR OF FINANCE |
| MR. ANTON PIPAON PALACIO | DIRECTOR OF CLIENT VALUE CREATION PLATFORM |
| MR. FRANCESC RIBAS COLLELL | DIRECTOR OF TUBOS REUNIDOS AMERICA |
| MR. ROBERTO URRUTIA BEASKOA | DIRECTOR OF TUBE MANUFACTURE |
| MS. JUANA MARIA FERNANDEZ DEL CAMPO | DIRECTOR OF HUMAN CAPITAL MANAGEMENT |
| MR. SANTIAGO ALONSO RODRIGUEZ | DIRECTOR OF MANAGEMENT CONTROL |
| MS. EVA ALMEIDA FUENTES | DIRECTOR OF STRATEGY AND TRANSFORMATION |
| MR. LUIS JAVIER CABEZAS CABEZAS | DIRECTOR OF STEEL MILLS |

| | |
|---|---|
| **Total remuneration of senior management (thousands of euros)** | 893 |

C.1.17 Indicate, where applicable, the identity of the members of the board that are also members of the board of directors of companies of significant shareholders and/or entities of the group:

Describe, where applicable, the relevant relations different from the ones included in the preceding section, between members of the board of directors and significant shareholders and/or entities of the group:

**Name or company name of the related director:**

QMC DIRECTORSHIPS, S.L.

**Name or company name of the significant related shareholder:**

QMC II IBERIAN CAPITAL FUND FIL

**Description of relation:**

The individual representative of the Director QMC DIRECTORSHIPS, S.L, Mr. Jacobo Lianza Figueroa, is Delegate Director of 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.

C.1.18 Indicate if any modifications have been made to the board regulations in the financial year:

Yes ☐ No ☒

C.1.19 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 COMMITTEE OF APPOINTMENTS AND REMUNERATION 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

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 responsibilities of the COMMITTEE OF APPOINTMENTS AND REMUNERATION are:

d) Assess the competencies, knowledge and experience required on the Board

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 Board Regulations.

C.1.20 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 2017 to the organisation or to the procedures applicable to the activities of the Board of Directors. |

C.1.20-bis Describe the assessment process and the areas assessed by the board of directors with the help, where applicable, of an external consultant, with regard to the diversity in its composition and responsibilities, the performance and composition of its committees, of the performance of the chairman of the board of directors and of the chief executive of the company and the performance and contribution made by each director.

The Board of Directors conducts an annual assessment of the Board of Directors, its Committees (the Executive and Supervisory Committees), of the posts of the Board and of the chief executive of the Company.

The process consists of a form completed by each board member, in which issues of the performance, composition of the governing bodies (from a quantitative and qualitative point of view), the level of information and communication between them, etc., are valued on a scale from 1 (completely agree) to 5 (totally disagree).

In particular, 63 issues were assessed in 2017, of which 14 were matters of the Board of Administration, 4 of the Executive and Delegate Committee, 10 of the Audit Committee, 11 of the Committee of Appointments and Remuneration, 9 on the performance of the Chairman of the Board, 8 referred to the Secretary of the Board and 7 referred to the assessment of the chief executive.

The forms are sent to the Secretary of the Board, who summarises the results by identifying the scores given to each issue. The results are firstly analysed by the Committee of Appointments and Remuneration and is then sent for discussion by the Board. The summary is attached to the minutes of the Board meeting. Apart from the Secretary, no member of the Board knows which scores in the summary correspond to which member or members. 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.

No external consultant participated in the assessment process in 2017.

C.1.20-ter Give a breakdown, where applicable, of the business relations that the consultant or any company in its 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 2017.

C.1.21 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 Board Regulations):

a) On the date of the first General Meeting after celebrating 70 years of age.

b) When they are subject to any of the legally provided disqualifications or conflicts.

c) When they are found guilty of a criminal offence or are subject to disciplinary proceedings for serious or very serious misconduct as a result of proceedings of the supervisory authorities.

d) When they are severely reprimanded by the Board of Directors for violating their obligations as Directors.

e) When they cease to exercise the posts, responsibilities or functions associated with their appointment as executive directors.

f) In the case of external nominee directors, when the shareholder whose interests they represent transfers all his/shares, or reduces them to a percentage that makes it advisable to reduce the number of external nominee directors appointed by it.

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.1.22 Section removed.

C.1.23 Are majorities required in any kind of decision other than those required by law?:

Yes ☐ No ☒

If applicable, describe the differences.

C.1.24 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.1.25 Indicate whether the chairperson has a casting vote:

Yes ☒ No ☐

| Matters in which there is a casting vote |
|---|
| The Chairman has powers to break a draw with his vote in all cases. |

C.1.26 Indicate if the articles or regulations of the board establish an age limit for directors:

Yes ☒ No ☐

Age limit of Chairperson: 65 for Executive Chairperson

Age limit of delegate director: 65 years

Director age limit: 70 years

C.1.27 Indicate if the articles or regulations of the board establish a term limit for independent directors different from the one established in the legislation:

Yes ☐ No ☒

C.1.28 Indicate if the articles or regulations of the board of directors establish specific rules for delegating votes at the board of directors, how it is done and in particular, the maximum number of delegations a director can hold 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.1.29 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 chairperson being present. Representations with specific instructions shall be regarded as attendance for the purposes of the calculation.

| | |
|---|---|
| **Number of board meetings** | 13 |
| **Number of board meetings without the presence of the chairman** | 0 |

If the chairman is an executive director, indicate the number of meetings held, without the presence or representation any executive director and under the chairmanship of the coordinating director

| | |
|---|---|
| **Number of meetings** | 0 |

Indicate the number of meetings held by the board committees over the year:

| Committee | Number of meetings |
|---|---|
| DELEGATE COMMITTEE | 3 |
| AUDIT COMMITTEE | 7 |
| APPOINTMENTS AND REMUNERATION COMMITTEE | 8 |

C.1.30 Indicate the number of meetings held by the Board of Directors over the year in which all the members were present. Representations with specific instructions shall be regarded as attendance for the purposes of the calculation.

| | |
|---|---|
| **Number of meetings with all the directors present** | 12 |
| **% of attendances over the total number of votes in the year** | 99.28% |

C.1.31 Indicate if the individual and consolidated annual accounts 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 annual accounts of the company for framing by the board:

| Name | Post |
|---|---|
| MR. SANTIAGO ALONSO RODRIGUEZ | Director of Management Control |

C.1.32 Explain what mechanisms, if any, are established by the board of directors to prevent individual and consolidated accounts it has drawn up from being presented at the general shareholders' meeting with qualified opinions in the audit report.

The external auditors present the Board of Directors with their audit report before the accounts are prepared, so that, if necessary, the board can take the necessary measures if it deems fit to prevent a report with qualified opinions.

C.1.33 Is the secretary of the board a director?

Yes ☒ No ☐

If the secretary is not a director, complete the table below:

C.1.34 Section removed.

C.1.35 Indicate the mechanisms, if any, that are established by the company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.

The proposal to the Board regarding the appointment of the external auditor for submission to the General Shareholders' Meeting, corresponds to the Audit Committee, which should ensure that the auditor is independent.

Pursuant to the provisions of Law 12/2010, of 30 June, the Audit Committee has received written confirmation from the external auditors (PWC) of their independence, along with information about the additional services of any kind provided to the company or companies linked by the auditors or persons related to them.

Likewise, after analysing the aforementioned PWC report, the Audit Committee has issued a report expressing its opinion prior to the issue of the audit report and demonstrating the auditor's independence and it has commented on the provision of other services in addition to the audit.

C.1.36 Indicate if the company has changed its external auditor over the year. If so, indicate the outgoing and incoming auditor:

Yes ☐ No ☒

If there were disagreements with the outgoing auditor, explain the nature of it:

C.1.37 Indicate if the audit firm carries out other work for the company and/or groups different from the audit and if so declare the fees received for said work and the percentage on the fees invoiced to the company and/or the group:

Yes ☒ No ☐

| | Company | Group | Total |
|---|---|---|---|
| **Amount for other work different from the audit (thousands of euros)** | 6 | 0 | 6 |
| **Amount for work different from the audit / Total amount invoiced by the audit company (in %)** | 3.15% | 0.00% | 3.15% |

C.1.38 Indicate if the audit report for the annual accounts of the previous year have reservations or qualified opinions. If so, indicate the reasons given by the chairperson of the audit committee to explain the contents and scope of said reservations or qualified opinions.

Yes ☐ No ☒

C.1.39 Indicate the number of financial years in which the current audit company has been carrying out the audit of the annual accounts of the company and/or the group without interruptions. 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 annual accounts have been audited:

| | Company | Group |
|---|---|---|
| **Number of uninterrupted financial years** | 34 | 34 |
| **No. of financial years audited by the current auditing company / No. of financial years in which the company has been audited (in %)** | 100.00% | 100.00% |

C.1.40 Indicate whether there is a procedure to enable directors to make use of external advice and, if so, describe it:

Yes ☒ No ☐

| Describe the procedure |
|---|

Article 24 of the Regulations of the Board regulates assistance from experts to enable Directors to carry out their functions:

External members of the Board may agree by majority to contract legal, accounting and financial advisers or other experts at the Company's expense for whatever matters they deem appropriate for assistance in the exercise of their duties.

The assignment has to be about specific problems of a certain degree of importance and complexity that arise in the course of the director's duties, while the cost of it should be reasonable and match the magnitude of the problem.

The request to contract external advisers or experts should be presented to the Chairman of the Company and shall be authorised by the Board of Directors if in his opinion: a) it is necessary for the effective performance of the functions assigned to the external directors; b) the cost of same is reasonable, in view of the magnitude of the problem and the assets and income of the Company; c) the technical assistance required cannot be adequately dispensed by the Company's experts and technicians.

In the event that the request for assistance from experts is made by any of the Board Committees, it may not be rejected, unless a majority of the members considers that the circumstances provided for in the paragraph above are lacking.

C.1.41 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 it:

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 chairperson or secretary, who shall manage the director's requests, directly facilitating them with the information or offering them the appropriate interlocutors.

The chairperson 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.1.42 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 |
|---|
| This process is included as part of the situations in which directors are obliged to put their post at the disposal of the board, as indicated above, in accordance with the provisions of Article 18 of the Regulations of the Board: |

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.

C.1.43 Indicate whether any member of the board of directors has informed the company that he/she has faced criminal charges or has been arraigned for any of the offences listed in Article 213 of the Capital Companies Act:

Yes ☐ No ☒

Indicate if the board of directors has studied the case. If the answer is affirmative, give a reasoned explanation of the decision made as to whether to allow the director to continue in his/her post or, if applicable, describe the measures taken by the board of directors until the date of this report or if it plans to take any future action.

C.1.44 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 it.

The company has not entered in any agreement of the type indicated above

C.1.45 Identify, in overall terms and also indicate in greater detail, the agreements between the company and their governing and management executives or employees that provide compensation, guarantee or protection clauses when they resign or are unfairly dismissed or if the contractual relationship reaches its end as a result of a hostile takeover bid or other type of transaction.

**Number of beneficiaries** 1

**Type of beneficiary:**

Executive Chairman

**Description of the Agreement:**

The Contract entered into with the Executive Vice-Chairman (Executive Chairman on the date of this report) provides for compensation of an annual sum of the fixed salary in certain situations of early termination, all of which shall be for reasons different from non-compliance with the duties inherent to his post.

None of the other directors currently on duty has a compensation agreement for termination of their role as director.

Indicate if these contracts have to be reported to and/or approved by the governing bodies of the company or group:

| | Board of Directors | General meeting |
|---|---|---|
| **Body that authorises the clauses** | Yes | No |

| | Yes | No |
|---|---|---|
| Is the general meeting informed about the clauses? | X | |

## C.2 Committees of the board of directors

C.2.1 Describe all the committees of the board of directors, their members and the proportion of executive, nominee independent and other directors that form part of them:

### DELEGATE COMMITTEE

| Name | Post | Category |
|---|---|---|
| MR. EMILIO YBARRA AZNAR | DIRECTOR | Nominee |
| MR. ENRIQUE PORTOCARRERO ZORRILLA LEQUERICA | DIRECTOR | Nominee |
| MR. GUILLERMO ULACIA ARNAIZ | CHAIRMAN | Chairman |
| MR. FRANCISCO JOSE ESTEVE ROMERO | DIRECTOR | Nominee |
| QMC DIRECTORSHIPS, S.L. | DIRECTOR | Nominee |
| MR. JORGE GABIOLA MENDIETA | SECRETARY | Independent |

| | |
|---|---|
| **% of executive directors** | 16.67% |
| **% of nominee directors** | 66.67% |
| **% of independent directors** | 16.67% |
| **% of other external directors** | 0.00% |

Explain the functions assigned to this committee, describe the procedures and rules of organisation and operation and summarise the most important actions over the year.

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 Committee met on 3 occasions in 2017.

Indicate if the delegate or executive committee reflects the participation of the directors in the board of directors according to their category:

Yes ☒ No ☐

## AUDIT COMMITTEE

| Name | Post | Category |
|---|---|---|
| MR. JORGE GABIOLA MENDIETA | SECRETARY | Independent |
| MR. FRANCISCO JOSE ESTEVE ROMERO | DIRECTOR | Nominee |
| MR. JUAN MARIA ROMAN GONCALVES | CHAIRMAN | Independent |

| | |
|---|---|
| **% of nominee directors** | 33.33% |
| **% of independent directors** | 66.67% |
| **% of other external directors** | 0.00% |

Explain the functions assigned to this committee, describe the procedures and rules of organisation and operation and summarise the most important actions over the year.

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 the termination date in the position,

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 it. The Audit Committee shall be regarded as validly constituted when half and one of its members is 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 check the internal control and risk management systems to ensure that they main risks are adequately identified, managed and made public. Discuss the significant weaknesses of the internal control system detected over the course of the audit with the auditors. (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) With respect to the Tubos Reunidos Group, the Audit Committee shall encourage the Group's auditor to take responsibility for the audits of the companies comprising said Group.

c) As regards other functions, the Audit Committee is responsible for:
(i) Informing the General Shareholders' Meeting of the matters raised by shareholders, within their scope of responsibility. (ii) Overseeing the process of preparing and presenting mandatory financial information. (iii) Informing the Board in advance of all matters provided for by Law, the articles of association and the Board Regulations. (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 2017 were related to: a) Safety and Prevention, b) Supervision of quarterly and biannual financial information, c) The audit of the annual accounts for the financial year, d) Control of operational risks e) The financial information internal control system (FIICS).

The Committee met on 7 occasions in 2017.

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.

| | |
|---|---|
| **Name of director with experience** | MR. JUAN MARIA ROMAN GONCALVES |
| **No. of years as chairman** | 0 |

## APPOINTMENTS AND REMUNERATION COMMITTEE

| Name | Post | Category |
|---|---|---|
| MS. ANA ISABEL MUÑOZ BERAZA | CHAIRMAN | Independent |
| MR. JORGE GABIOLA MENDIETA | SECRETARY | Independent |
| QMC DIRECTORSHIPS, S.L. | DIRECTOR | Nominee |

| | |
|---|---|
| **% of nominee directors** | 33.33% |
| **% of independent directors** | 66.67% |
| **% of other external directors** | 0.00% |

Explain the functions assigned to this committee, describe the procedures and rules of organisation and operation and summarise the most important actions over the year.

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. The Board shall appoint a Secretary, who may be from the Board of Directors or one of the members of the Committee.

The Committee of Appointments and Remuneration 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.

The Committee of Appointments and Remuneration 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) As regards Appointments, the functions involve (i) Formulating proposals for appointments, re-elections or separation of independent directors. (ii) Reporting the proposals for appointments, re-elections or separation of the remaining Directors and offices of the Board. (iii) Verifying the nature of each Director and checking that he/she complies with the requirements for his/her qualification as an executive, be they an external independent director, external director representing substantial shareholder or, where appropriate, other external directors. (iv) Assessing the necessary skills, knowledge and experience within the Board, defining, as a result, the necessary functions and aptitudes of the candidate required of each position and assessing the exact time and dedication necessary for them to effectively perform their duties. (v) Examining and organising, in manner deemed appropriate, the succession of the offices of the Board and of the executive line, so that said succession occurs in an orderly and well-planned manner. (iv) Annually reporting on the performance of its functions by the offices of the Board and executive line. (vi) Reporting the appointments and resignations of the Board Secretary and Senior Management proposed to the Board. (vii) Establishing a goal of representation for the less represented gender within the Board and preparing guidelines on how to reach said goal.

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 Committee of Appointments and Remuneration may solicit advice from external professionals, for which purpose the provisions of Article 24 of the Regulations of the Board shall apply.

In 2017, the Committee of Appointments and Remuneration introduced a number of important measures, amongst which the following should be mentioned:
a) Determining the closure of remunerations for 2016 and proposals for 2017. b) The objectives of the management team for 2017. c) The selection process of the Executive Vice-Chairman, proposal for his appointment and remuneration conditions. d) The selection process of an independent director. e) Analysis of the composition of the Supervisory Committees.

The Committee met on 8 occasions in 2017.

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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 Financial Year | | 2016 Financial Year | | 2015 Financial Year | | 2014 Financial Year | |
| | Number | % | Number | % | Number | % | Number | % |
| DELEGATE COMMITTEE | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| AUDIT COMMITTEE | 0 | 0.00% | 1 | 25.00% | 1 | 33.33% | 1 | 25.00% |
| APPOINTMENTS AND REMUNERATION COMMITTEE | 1 | 33.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |

C.2.3 Section removed

C.2.4 Section removed.

C.2.5 Indicate, where applicable, if there are regulations of the board committees, the place where they are available for consultation and any modifications made to them 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 CNMV. 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 CNMV, but no changes were made in 2017.

C.2.6 Section removed.

# D RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

## D.1 Explain, where applicable, the procedure for approving related-party and intra-group transactions.

| Procedure for approval of related party transactions |
|---|
| There is no formal written procedure for approving related-party and intra-group transactions, although, whenever related party transactions might lead to a conflict of interests, the applicable procedures is the one indicated in section D.6. below. |

## D.2 Describe any transactions that are significant because of their size or nature, between the company or any group undertakings and significant shareholders of the company.

| Name or company name of the significant shareholder: | Name or company name of the company or entity of his/her group | Nature of the relation | Type of operation | Amount (thousands of euros) |
|---|---|---|---|---|
| BANCO BILBAO VIZCAYA ARGENTARIA, S.A. | BANCO BILBAO VIZCAYA ARGENTARIA | Commercial | Financing agreements: loans | 46,578 |
| BANCO BILBAO VIZCAYA ARGENTARIA, S.A. | BANCO BILBAO VIZCAYA ARGENTARIA | Commercial | Interests paid | 1,817 |
| BANCO BILBAO VIZCAYA ARGENTARIA, S.A. | BANCO BILBAO VIZCAYA ARGENTARIA, S.A. | Commercial | Financing agreements: others | 14,925 |

D.3 Describe any transactions that are significant because of their size or nature, between the company or any group undertakings and the company's directors or executives.

| Name or company name of the administrators or directors | Name or company name of the related party | Link | Nature of operation | Amount (thousands of euros) |
|---|---|---|---|---|
| MR. DIEGO OTERO MOYANO | ALMESA | CEO OF ALMESA | Purchase of financial assets | 0 |

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 company's normal operations with regards to 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:

D.5 Indicate the amount from transactions with other related parties.

209 (in thousands of euros).

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.

D.7 Is more than one company of the Group listed in Spain?

Yes ☐ No ☒

Identify the subsidiary companies that are quoted in Spain:

**Quoted subsidiary company**

Indicate if the respective areas of activity and possible business relations between them have been defined publicly and without precision, as well as those of the quoted subsidiary company with the other companies of the group;

| Define the possible business relations between the parent company and the quoted subsidiary company and those of the quoted subsidiary company with the other companies of the group |
|---|

Identify the mechanisms provided to resolve any possible conflicts of interest between the quoted subsidiary and the other companies of the group:

| **Mechanisms to resolve any possible conflicts of interest** |
|---|

# E RISK CONTROL AND MANAGEMENT SYSTEMS

## E.1 Explain the scope of the Risk Management System of the company, including any relating to taxation.

The activities undertaken by the companies that make up the Tubos Reunidos Group are subject to the customary contingencies of any business where industrial transformation takes place and are therefore exposed to risks that can impede or hinder the company from achieving established objectives.
None of the risks are severe or exceptional, beyond those inherent to the business in itself. The Group has defined four categories of risks and has established a Risk Control System adapted to each of these categories:
- Strategic Risks. Those that are regarded as key risks directly related to strategic decision making
- Operational Risks. Those that affect operational management in each and every area of business activity.
- Risks of Reliability of economic-financial information. Directly affect the information reported to the Organisation and/or third parties.
- Risks of Compliance. Affect compliance with internal or external regulatory standards (environmental, labour, legal, fiscal, etc…)

Manuals of Procedures, Integrated Management Systems, periodic and regular internal and external audits and Risk Maps have been developed to:
- Identify and assess the key risks in each business area
- Know the risks assumed and the risks to be avoided
- Establish internal and external control systems
- Draw up action plans required to mitigate the identified risks.

As regards strategic and business risks, although they are related as such, their inclusion in the formal management and monitoring process is currently under way.

## E.2 Identify the company bodies responsible for preparing and enforcing the Financial Information System as well as the Risk Management Systems.

## E.3 Indicate the main risks, including tax-related ones, that might affect the achievement of business objectives.

- The cyclical nature of the main business of manufacture and sale of seamless steel tubes depending on growth or shrinkage in international demand should be highlighted in the operational area. During periods of downturns, the Group protects itself from this risk as much as it can by diversifying markets and products, a major international presence and major capacity in terms of flexibility in range of products, adapted to different zones of the world where energy demand is generated.
- The Tubos Reunidos Group exports a large part of its sales and, therefore, is subject to changes in exchange rates.
The Group protects itself from changes in exchange rates by using the customary underwriting systems via financial institutions, complying with an approved procedure and supervised by the Audit Committee.
- More detailed information about the management of financial risk can be seen in the Report on the Consolidated Annual Accounts. In particular, the risk factors (market, credit, liquidity, risks and risks of variations in the prices of raw materials) of hedging operations, of estimating fair value and capital risk management.
- As regards the risk of insolvency or default of clients, such situations are generally covered in the Group companies, with the corresponding credit insurance, the limits and regulations of which are strictly applied and complied with.
- For equity issues the Group has contracted insurance policies with sufficient capital to cover the risks that the tangible fixed assets and stock are subject to, as well as the loss of margin due to stoppage of industrial activity caused by damage to said assets.

- In the environmental area, the Group has facilities designed to protect and improve the environment and has an environmental strategic program that has allowed for the ISO 14001 certificate to be obtained. All this is the result of strict compliance with legislation currently in force, protocols and voluntary agreements with the Administration and of individual and sector initiatives. It has also contracted the appropriate environmental liability insurance policy.

- As regards occupational health and safety, Integrated Occupational Health and Safety Management Systems have been implemented that establish the corresponding directives for action and which set out to eliminate or reduce personal injury to a minimum. The Group has certification of the prevention management system in accordance with standard OHSAS 18001.2007, in force until 2018.

### E.4 Identify whether the entity has a level of risk tolerance, including tax-related risks.

The Group maintains a very conservative posture with regard to exposure to risk, be it operational, financial, technological or in terms of reputation and, therefore, the most important priority in this section is to assess and mitigate risks as much as possible.

### E.5 Indicate what risks including tax-related ones, have arisen over the year.

As mentioned in point E.3 above, the main activity of the Group is influenced by economic business cycles. Since mid-2014, when oil prices dropped markedly, the Group has been going through a low business period. In 2015 and 2016 reductions were made in investments in oil and gas sector activities, which is a sector where a large part of the Group's production is directed. Activity partially recovered in 2017, although prices have not improved, due to increased competition and reduced margins and, therefore, business profitability continues to suffer with the subsequent losses in the consolidated income statement. To guarantee a sustainable result and make maximum use of the invested capital, the Group launched a global 360° transformation plan called the "Plan Transforma" in the second half of 2017. Said Plan sets out to increase the EBITDA, improve sales activity, increases operational efficiency, improves productivity, gains flexibility, reduces capital investment needs and retakes effective control of profits.

### E.6 Explain the plans for responding to and supervising the main risks of the entity, including any tax-related ones.

A schedule or reviews and audits for the categories of operational risks, risks associated with the reliability of financial information and compliance risks has been established, which are approved during the presentation of the annual budgets by the Board of Directors via the Audit Committee.
When the corresponding audits are completed and, in accordance with the reports, the corresponding action plans are drawn up, which are prepared by the operational departments, approved by the management of each business unit, supervised by the Audit Committee and executed by the corresponding Group Departments.
The Group also has a number of insurance policies to cover risks in its activities.

## F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS RELATED TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (FIICS)

Describe the mechanisms that make up the risk control and management systems for issuing financial information (FIICS) in your entity.

### F.1 Entity’s control environment

Describe, indicating the main features of, at least the following:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective FIICS; (ii) the implementation and (iii) supervision of it.

The final responsibility for the existence and maintenance of adequate and effective internal control system for issuing financial information (FIICS) corresponds to the Board of Directors, although the implementation and supervision of same is taken on by the Audit Committee, which in turn delegates the tasks of designing and checking the effective implementation of the FIICS to the Risk Control Department (RCD).

a) In this regard, Article 21 of the Regulations of the Board of Directors, approved on 29 October 2015, announced in previous General Shareholders' Meetings, expressly establishes the following responsibilities of the Audit Committee: With regard to the information and internal control systems:

(i) Supervise the preparation process and integrity of the financial information on the company and its group, reviewing compliance with legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting standards.

(ii) Regularly check the internal control and risk management systems to ensure that they main risks are adequately identified, managed and reported. Discuss the significant weaknesses of the internal control system detected over the course of the audit with the auditors.

(iii) Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and dismissal of the internal audit service manager; propose the budget for this service; approve the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receive periodic information about its activities; and check that senior management has the conclusions and recommendations from its reports.

The Risk Control Department (RCD), when executing the tasks assigned to it in this area by the Audit Committee, is supported by external advisers who are responsible for carrying out the work of reviewing the internal control of the Group under its supervision.

F.1.2. If there are the following elements, especially in those areas concerning the process of preparing the financial information:

- Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with adequate distribution of tasks and functions; (iii) ensuring that there are sufficient procedures for suitable dissemination in the organisation.

Every business segment has its own duly documented, formalised and publicised organisational structure. It shows in generic form the scope of activities and responsibility of each departmental area and of the members that make it up.

As regards the scope of the FIICS, the Group has identified the main controls established in the most important companies (Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.) to appropriately manage and mitigate to a reasonable level the main risks related to the process of generating and issuing financial information, along with those responsible for the effective execution and supervision of each control. This process is directed by the Risk Control Department and is supervised by the Audit Committee.

- Code of conduct, body responsible for approval, level of dissemination and instruction, principles and values included (indicating if there are specific mentions of the operational record and preparation of financial information), body responsible for analysing non-compliances and for proposing corrective measures and penalties

The Group has “Internal Regulations of Conduct" (hereinafter the Regulations), approved by the Board of Directors on 24 July 2003, which establish the principles for action that should govern the conduct of the members of the Board of Directors and Senior Management of Tubos Reunidos, S.A. and of the companies thereof. The Regulations can be consulted on the website of the CNMV. For the purpose of demonstrating the adherence of the persons subject to same, the Secretary of the Board of Directors keeps an updated list of said persons and provides them with a copy of the Regulations. The Regulations establish (amongst other matters) the following in this regard:

• The actions of the members of the board should be carried out “respecting legislation currently in force, complying in good faith with explicit and implicit contracts with workers, suppliers, clients and organisations; and generally observing ethical conduct that reasonably imposes dealings in business in accordance with the duties of diligent administration and trustworthiness, loyalty and confidentiality" and that,
• The content of any relevant information sent to the CNMV (any information that, if known, might reasonably influence an investor in buying or transferring securities or financial instruments and may, therefore, have a detectable influence on quotation in a secondary market) “should be true, clear, complete and when the nature of the information so requires, quantified in such a way as not to lead to any confusion or deception".
• The body responsible for monitoring the provisions of the Regulations is the Secretary of the Board of Directors of Tubos Reunidos, S.A.

• Likewise in 2012 the document “Guidelines for Action regarding Financial Information" was drawn up, which sets out to “establish the values and principles that should govern the professional and personal activities of the members of the board, senior management and other employees of the Tubos Reunidos Group with responsibilities for preparing, reviewing and transmitting financial information, with the aim of ensuring transparency and reliability and compliance with applicable legislation". In particular, the obligation is established that people with particular responsibilities assigned to the process of preparing, reviewing and transmitting the financial information of the Tubos Reunidos Group should certify, in accordance with the established frequency and, with total honesty, the level of compliance of the controls, the execution and/or supervision of which they are responsible for. Likewise, every effort shall be made to collaborate with and facilitate the work of those responsible for reviewing and supervising the FIICS of the Tubos Reunidos Group, complying with the requirements of information and documentations in the shortest possible time and providing truthful and complete explanations and/or documentation at all times.

This document expressly establishes the regular review of the internal risk control and management systems to enable the main risks to be adequately identified, managed and publicised, as part of the responsibilities of the Audit Committee. Such responsibilities include that of supervising the process of preparation and the integrity of the financial information, reviewing compliance with legislative requirements, adequate demarcation of the scope for consolidation and correct application of accounting standards.

Finally we should comment that the Board of Directors has approved the following documents within the framework of a Criminal Liability Prevention Model for Legal Entities of the TR Group (Legal Compliance): a) Ethical Code of Conduct, b) Prevention Plan with annexes, c) Suppliers Gifts and Gratuities Policy and d) Clients Gifts and Gratuities Policy.

• The aim of the Prevention Plan is to establish measures to prevent potentially prosecutable offences from being committed in the Tubos Reunidos Group. The Code of Ethical Conduct is published in the corporate website of the Tubos Reunidos Group and in the websites of subsidiary companies (Tubos Reunidos Industrial and Productos Tubulares). This Code establishes the principles of action based on ethical values that should govern the conduct of the members of the Board of Directors, managers and employees of Tubos Reunidos, S.A. and of the Group companies, subsidiaries and agents.

- Whistle-blower channel, which enables communication with the audit committee to report financial and accounting irregularities, in addition to any possible breaches of compliance of the code of conduct and irregular activities in the organisation, reporting where necessary if the communication is confidential.

Amongst the measures contained in the Prevention Plan with regard to criminal liability of the legal entities of the TR Group relating to the ones described above, the implementation of a communication and whistle-blower channel is included as a measure to enable complaints to be reported about conduct, actions or incidents of management or employees that involve infringements of the internal regulations of the company and legislation governing the activities of same. Any allegations received via this channel shall be confidentially studied by the independent control body that has been established within the framework of the Prevention Plan. Said independent control body is made up of the Chairman of the Audit Committee, the Secretary of the Board of Directors, the Head of the Legal Advice department and the Manager of the Management Control Section of the Group. The whistle-blower channel can be accessed within the code of conduct and directly at the corporate website of the Tubos Reunidos Group (http://www.tubosreunidos.com/es/nuestros-valores.php).

No complaints were received in 2017.

- Regular training and refresher programs for the staff involved in preparing and reviewing the financial information and assessing the FIICS, that cover at least the accounting standards, auditing, internal control and risk management.

The Group has defined and standardised training programs. The human resources department draws up yearly plans defining the specialisation needs and training grades for every staff category. Said plans are presented to General Management for approval.

The Risk Control Department (RCD) and the Financial Divisions of the different companies of the Group keep in permanent contact with their external auditors in order to keep up to date with any new legislative developments that affect them in accounting, risk management and internal control of financial information and to provide them with materials and assistance for updating. The Risk Control Department (RCD) also keeps in permanent contact with the financial divisions of the companies and business units in order to share and transmit the new legislation along with any concerns or doubts about interpretation of accounting principles that might arise.

## F.2 Assessment of financial reporting risk

Comment on at least the following:

### F.2.1. What are the main features of the risk identification process, including those of error or fraud, with regard to:

- Whether the process exists and is documented.

The Group has an operational risk list documented and formalised, which acts as a basis for the work of the internal auditing section. It is divided into the following areas of activity: Clients/Sales, Stock/Warehouses, Purchasing/Suppliers, Treasury and Legal.

- Whether the process covers all the objectives of the financial information, (existence and occurrence; integrity; appraisal; presentation, breakdown and comparability; and rights and obligations), if it is updated and how often.

The identified risks are reviewed as per the internal audit work schedule approved every year by the Audit Committee.

- The existence of an identification process of the scope of consolidation, bearing in mind, amongst other aspects, the possible existence of complex company structures and instrumental or special purpose bodies.

Any company operation that might or might not affect the scope of consolidation of the Group undergoes an in-depth study by the Risk Control Department (RCD), in collaboration with the external auditors and should be authorised by the Audit Committee before it is entered in the accounts.

- Whether the process includes the effects of other types of risks (operational, technological, financial, legal, risks to reputation, environmental, etc.) that might affect the financial statements.

All the risks that might affect the financial statements are taken into consideration.

- Which governing body of the entity supervises the process.

The supervision of all issues relating to the Risk List and the FIICS is the responsibility of the Audit Committee.

## F.3 Control activities

State whether the company has at least the following, and describe their characteristics:

### F.3.1. Review and authorisation procedures for financial reporting and description of the FIICS, to be published in the securities markets, indicating those responsible, together with documentation describing the flows of activities and controls (including those related to the risk of fraud) of the various types of transactions that may have a significant effect on the financial statements, including the accounting closing procedure and specific review of the judgements, estimations, evaluations and major projections.

The process for preparing and reviewing the financial information to be published in the securities markets is structured around the closure schedule and publication of the prepared annual accounts for each publication period by the Risk Control Department (RCD). In accordance with this schedule:

- The annual accounts of Tubos Reunidos, S.A. and the consolidated annual accounts of Tubos Reunidos, S.A. and subsidiary companies are prepared by the Risk Control Department (RCD).
- The completed annual accounts are sent to the Audit Committee, which then reviews them before sending them to the Board of Directors.
- After they are reviewed by the Audit Committee, the annual accounts are sent to the Board of Directors for review before they are formulated.

Once the annual accounts are formulated by the Board of Directors, the Consolidation Manager, under delegation from the Secretary of the Board of Directors, who is the only person with an authorised digital certificate to send the financial information to the CNMV, is responsible for completing the corresponding information in the format required by the CNMV. Once it is completed, the information is reviewed by the Secretary of the Board of Directors, who then issues it.

As regards the publication of relevant facts and, as described above, the “Internal Rules of Conduct" of the Group define what should be understood as relevant information and the guidelines that should be followed for its transmission. In particular, it establishes that “transmission to the CNMV shall be carried out prior to transmission of same by any other means and as soon as the fact is known of the decision or execution of the agreement or contract with third parties in question", along with a series of obligations and action to be carried during the study phases or negotiation for any kind of legal or financial transaction that might have a noticeable influence on the quoting of securities or financial instruments that might be affected, to ensure the due confidentiality and best use of the information. Monitoring of compliance with these obligations is the responsibility of the Secretary of the Board of Directors who, in collaboration with the Director of Investor Relations, draws up a report of the relevant facts to send to the CNMV.

The Tubos Reunidos Group and the most relevant companies of same (Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.), have identified the main controls that enable adequate management and mitigation of the impact, when this takes place, of each risk relating to the process of generating and issuing financial information identified and documented in the Risks Matrix of financial information of the Group. For each of these controls, the Group has identified the responsible for executing and supervising the evidence that enables the operational nature to be supported and which is established as the basis for the work of internal control revision. This information has been documented and structured via the corresponding Risk-Control Matrices.

As regard the more recently incorporated Group companies that have recently started operations, in particular RDT and TRPT, the implementation process of the FFICS shall be carried out according to its future progress. Therefore, the current controls do not include said companies.

In 2017, the Group continued to execute the system established in previous years by which every party responsible for executing and/or supervising each control mentioned in the paragraph above should report, with the pre-established frequency for each case, the degree of compliance of same, attaching the corresponding evidence that certifies the due execution and/or supervision of same when they have been defined. The Risk Control Department (RCD) reviews the status of the controls every month and, where necessary, analyses any possible incidents in collaboration with the financial departments of the largest companies of the Group. The RCD gives regular reports of the level of compliance of the system to the Audit Committee for the purposes of supervision.

In 2017, the Group continued to review the most notable processes of the FFICS implemented to check if the controls established duly mitigate the risks for the analysed processes, as part of the work of internal auditing for the year. 5 processes out of the 15 that were established have been reviewed. The review concluded positively and the improvements proposed by internal auditors were introduced by the end of 2017. The accounting closure process is documents by the most significant companies (Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.) in an accounting closure checklist, which includes the main tasks to be carried out in the process and the parties responsible for executing each one. This checklist is duly completed by each person involved in each accounting process deadline and is one of the controls established in the aforementioned system.

As regards the procedures and controls established for relevant judgements, estimates and forecasts, the Group identifies the main risks relating to these aspects via its Risk-Control Matrix, along with the controls established to ensure they are adequately managed. In particular, the main scopes exposed to judgements and estimates have been identified as the ones relating to:

• Estimates of the recoverable value of non-current assets, stock and accounts receivable;
• The valuation of stocks, in-process product and finished product and financial derivatives and
• The recording of provisions of any kind.

In short, the controls established in this regard can be summarised in the clear identification of the responsibilities concerning identification of possible liabilities, the corresponding estimates and the review of same.

Likewise, the Tubos Reunidos Group and its most relevant companies (Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.) have documented processes for “Default Risk (non-payment/arrears)", “Discrepancies between physical units and those registered in the computer system, raw materials”, “Discrepancies between physical units and those registered in the computer system, finished product”, “Risk of material dispatch without invoicing", “Purchases not duly authorised/incorrect inputs/invoice registration", “Currency risk", “Sales Cycle", “Unauthorised contracts", “Discrepancies between accounts information and bank extracts", “Issue of incorrect invoices", “Not involving the best possible contracting”, “Incorrect valuation of stocks”, “The customer is not supplied with the order”, “Raw Material and Spare Parts Stock Depletion”, “Non-compliance of approvals” and “Actions by persons without the corresponding powers”, which include the type of transactions for each process, the procedures for registering them and the controls carried out by the Tubos Reunidos Group.

F.3.2. Policies and procedures of internal control of information systems (especially on safety and security of access, monitoring of changes, execution, operational continuity and separation of functions) that back the entity’s relevant processes with regards to the elaboration and publication of the financial report.

The Group has formally approved and formalised IT procedures, which include regular analyses of the progress of all the systems.

Likewise, the external auditors carry out a review of information technologies. Any weaknesses detected and proposed recommendations are subjected to analysis and, where applicable, monitoring by the management of the Group companies.

F.3.3. Policies and procedures of internal control aimed at supervising outsourced activities, including the aspects of valuation, calculation or assessment entrusted to independent experts, which could materially affect the financial statements.

In the process of identifying the processes by which the transactions that are finally shown in said sections and breakdowns are processed, as well as the relevant risks that for each process may lead to errors in the process of generating and issuing the financial information, activities subcontracted to third parties that might have a material impact on the financial statements have not come to light.
As regards the evaluations of the financial derivatives, the Finance Departments of the companies that in each case might have instruments of this nature in force at the end of the period, shall obtain the corresponding valuation from the financial institutions with whom they have contracted these products. These evaluations are subject to review by the Finance Departments, who run their own estimates and compare them with the ones obtained by the financial institutions. In the event of discrepancies, the financial institutions are contacted to clarify them and obtain new evaluations when necessary.

## F.4 Information and reporting

Describe if the company has at least the following, indicating their main features:

F.4.1. A specific function responsible for defining and updating accounting policies (accounting policy area or department) and for resolving doubts or conflicts arising from their interpretation, maintaining fluid communication with the persons responsible for operations in the organisation, as well as an updated accounting policies manual that is distributed to all the operating units.

The responsibility for defining and updating the accounting policies of the Group are assigned to the Risk Control Department (RCD), which, with this purpose in mind, carries out the following activities:
• Annual meeting held prior to the closing date with the external auditors to update any new accounting features and new disclosures in annual accounts. Any meetings required for consultation on specific issues are also held with the external auditors.
• Permanent contact with the financial and administrative managers of the subsidiaries to inform them of the latest accounting changes.
• Response to any accounting queries set made by Group companies.
In order to further strengthen control over the financial information and ensure complete uniformity in terms of accounting treatment of transactions throughout the Group, an Accounting Policy Manual has been implemented that includes the main accounting policies and criteria adopted.

F.4.2. Mechanisms to gather and prepare the financial information with standard forms applicable and used by all the units of the entity or the group and which should support the main financial statements and notes, as well as detailed disclosures on FIICS.

The reporting and consolidation process of the Group is the responsibility of the Risk Control Department (RCD) and in particular the Consolidation Manager. This way, at the start of each financial year, the Consolidation Manager sends a reporting schedule with all the monthly report dates to the managers of the Group companies in order to ensure that the information is received with sufficient notice to enable the consolidated financial statements to be prepared in accordance with the established schedule, for subsequent issue to and analysis by the Board of Directors.
The subsidiaries report the information using a "Consolidation Reporting Pack" standardised in Excel format, which is sent by the Consolidation Manager. Every year and before sending the reporting instructions to the subsidiaries for the year-end, the Consolidation Manager meets with the external auditors so they can review the content of the "Consolidation Reporting Pack" and to enable it to be updated where necessary in accordance with new information requirements in the annual accounts.
The reporting packets received from the subsidiaries to prepare the yearly consolidated accounts of the Group for the year-end, are reviewed by the external auditors, as part of their auditing work for the Annual Consolidated Accounts of the financial year. Before sending the “Consolidation Pack” to the auditors, they are reviewed by the Consolidation Manager.
The Group uses a consolidation application that enables the financial statements of the companies of the Group to be aggregated and the consolidation entries to be completed.

## F.5 Supervision of system operation

Describe the following, indicating the main features:

F.5.1. The supervision of FIICS performed by the Audit Committee, and whether the entity has an internal audit function with the duty of supporting the committee in supervising the internal control system, including FIICS. Also, provide information on the scope of the evaluation of FIICS carried out during the year and the procedure by which the person assigned to perform the assessment reports the results, whether the entity has an action plan setting out corrective measures and whether its impact on financial reporting has been considered.

Amongst the functions held by the Audit Committee is that of regularly reviewing the internal risk control and management systems to enable the main risks to be adequately identified, managed and publicised. Such responsibilities include that of supervising the process of preparation and the integrity of the financial information, reviewing compliance with legislative requirements, adequate definition of the scope for consolidation and correct application of accounting standards. As mentioned in section F.3; an audit of the controls established for five of the 15 Processes identified in FFICS controls matrix is also carried out.

To carry out these functions, The Audit Committee makes use of the internal audit function, mainly carried out on a provisional basis by staff belonging to the management control area, with the support of an external consultation company and under the Committee's supervision.

The formal implementation of an internal auditing department is currently in progress. All the critical aspects that should be included are taken into account during the department definition process and these include:
• Position in the organisational chart, to ensure due independence and authority.
• Objectives, approach and processes to be completed (internal audits via external collaboration).
• Persons that form the department (sufficient in number and experience to fulfil the objectives).

The internal audit service presents an annual audit plan to the Audit Committee for approval. Said audit plan is prepared bearing in mind the risks identified in the Risks Map of the organisation, to ensure that the different risks are managed over time. The results of the suggested review and action plans are presented to the Audit Committee, who approves them and subsequently monitors how the suggested actions are implemented.
As regards the supervision work of the FIICS in the financial year, the main activities carried out by the Audit Committee were the following:
• Review and approval of the financial information Risk Map.
• As mentioned in section F.3.1; audit of the controls established for three of the 15 Processes Identified FFICS controls matrix.
• Regular meetings before publishing the intermediate financial information, with the Risk Control Department (RCD) for reviewing the state of execution and/or supervision of the controls and analyses, where applicable of any potential incidents.
• The Audit Committee met three times during the year with the external auditors to discuss about the most important points that have become known in the auditing process.
• In the meeting held on the date of this report by the Audit Committee, the controls established in the system of the different departments of the major companies of the Group were supervised successfully, being in line with expectations, after presentation of the corresponding reports by the RCD, which were executed and supervised with a high level of compliance, for preparation of the annual accounts of 2017. The Board of directors was informed of the above in the subsequent meeting, as a prior step before formulating the annual accounts.

F.5.2. Whether there is a discussion procedure by which the auditor (pursuant to the stipulations of the Audit Technical Standards), the function of the internal audit and other experts may report the significant weaknesses identified in the internal monitoring during the revision of the financial statements or all the others entrusted to them to the top management and to the audits Committee or to the directors of the entity. Also, report whether there is an action plan for correcting or mitigating the weaknesses uncovered.

The Audit Committee of Tubos Reunidos meets three times a year with the external auditors, unless there are reasons that make extraordinary meetings necessary. In said meetings, the annual and half-year financial information are reviewed and control weaknesses detected by the external auditor during the review of the main business processes and general controls implemented in the Group are analysed, along with the suggested corrective measures.
The Audit Committee also approves the annual internal audit plan presented by the internal audit function and meets the internal auditors so that they can present the results of their work and any suggested action plans. The conclusions of these reviews are transmitted to the CEOs of each business unit, who are ultimately responsible for defining specific plans to resolve, or mitigate, any defects that were detected.

## F.6 Other relevant information

There are no additional points that warrant mention here.

## F.7 External auditor's report

Report of:

F.7.1. If the information of the FIICS sent to the market was subject to review by the external auditor, in which case the entity should include the corresponding report in the form of an annex. If not, reasons should be given as to why

The information of the FIICS did not undergo review by the external auditor for issuing a specific report about same, without prejudice to it forming part of the review of the risk control of the Group in the auditing work done on the financial statements. The only work done in this regard was the review mentioned in section F.3.1

# G DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

Indicate the degree of compliance of the company with regard to the recommendations of the Code of Good Governance for listed companies.

If a recommendation is not followed or is only partially complied with, a detailed explanation should be given with reasons explaining this state of affairs so that the shareholders, investors and the market in general has enough information to assess the company's proceedings. Explanations of a general nature shall not be accepted.

1. 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 make it difficult to take control of the company through the acquisition of its shares on the market.

Complies ☒ Explain ☐

2. When the parent company and a subsidiary company are quoted, they both publicly and clearly define:

   a) The respective areas of activity and possible business relations between them have been defined and those of the quoted subsidiary company with the other companies of the group;

   b) The mechanisms available to resolve any possible conflicts of interest that might arise.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

3. During the ordinary general meeting, in addition to the writer corporate annual report, the chairman of the board of directors gives a verbal report to the shareholders with sufficient details of the most important aspects of the corporate governance of the company and, in particular:

   a) The changes that have taken place since the last ordinary general meeting.

   b) The specific reasons why the company does not follow a recommendation of the Code of Corporate Governance or an alternative rule on such questions if these exist.

Complies ☐ Partially complies ☒ Explain ☐

The Chairman informs the shareholders during the General Meeting about the most significant changes regarding corporate governance (if any) that have taken place since the last General Meeting.

However, he does not explain the specific reasons when a recommendation of the Code of Corporate Governance is not followed because they are generally complied with and any situations of total or partial non-compliance are of little importance and exceptional in nature.

4. The company defines and promotes a policy of disclosure and contact with shareholders, institutional investors and voting advisers that fully respect rules against market abuse and that shareholders in the same position receive a similar treatment.

   The company discloses this policy on its website, including information about the way it has been put into practice and identifying the interlocutors or parties responsible for carrying it out.

Complies ☒ Partially complies ☐ Explain ☐

5. The board of directors does not submit a proposal to the general meeting to grant powers, to issue shares or convertible bonds with the exclusion of the preferential right of subscription, for a sum over 20% of the capital at the time of delegation.

   When the board of directors approves any issue of shares or convertible securities with the exclusion of the preferential right of subscription, the company immediately reports the reports about said exclusion referred to by commercial legislation in its website.

Complies ☒ Partially complies ☐ Explain ☐

6. Listed companies that prepare the reports mentioned below, either mandatorily or voluntarily, publish them on their website sufficiently in advance of the date of the ordinary shareholders' meeting, although making it public is not mandatory:

   a) Report on auditor independence.

   b) Operational reports of the audit and appointments and remuneration committees.

   c) Report of the audit committee on third-party transactions.

   d) Report on the corporate social responsibility policy.

Complies ☐ Partially complies ☒ Explain ☐

The company publishes the report on the auditor's independence on its website with sufficient notice before the ordinary general shareholders' along with the Report on the Audit Committee's activities.

It does not publish a specific report about the functioning of the Audit Committee and the Appointments and Remuneration Committee because its operational rules are described in the Regulations of the Board published on the Company website, the website of the CNMV and in this report.

The report of the Audit Committee on related-party transactions is not published either, given that they are reported in the Report of the Annual Accounts of the financial year and in section D of this report. As regards the corporate social policy, the most relevant aspects are contained in the Annual Report (Annual Memorandum) that is issued to the shareholders on the day of the General Meeting and made public on the corporate website.

7. The company should broadcast its general shareholders' meetings live, via its website.

Complies ☐ Explain ☒

The Company does not transmit the General Meetings on its website because it does not regard it as necessary, although the possibility of doing so will be considered in the future.

8. The audit committee ensures that the board of directors presents the company's accounts to the general shareholders' meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairperson of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies ☒ Partially complies ☐ Explain ☐

9. The company permanently publishes on its website the requirements and procedures it will accept to accredit the ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of the right to vote.

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies ☒ Partially complies ☐ Explain ☐

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

    a) Immediately circulate the supplementary items and new proposals.

    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of directors.

    c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of directors, with particular regard to presumptions or deductions about the direction of votes.

    d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this report.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

    In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies ☒ Partially complies ☐ Explain ☐

13. The Board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies ☒ Explain ☐

14. The board of directors approves a policy for selecting directors that:

a) Is specific and verifiable.

b) Ensures that the proposals for appointment or re-election are based on a prior analysis of the needs of the board of directors.

c) Favours diversity in terms of knowledge, experience and gender.

The results of the prior analysis of the needs of the board of directors is contained in the explanatory report of the appointments committee published when the call for the general shareholders' meeting is issued, in which the appointment or re-election of each director is subject to ratification.

If the policy of selecting female directors is promoting the objective that the proportion of female directors should reach at least 30% of the total number of members of the board of directors in 2020.

The appointments committee shall check compliance with the female director selection policy every year and shall give a report on it in the annual report on corporate governance.

Complies ☐ Partially complies ☒ Explain ☐

The Board of Directors has not approved a "specific" and "verifiable" directors' selection policy but it does ensure in all cases that the proposals for appointment or re-election are based on a previous analysis of the needs of the Board of Directors and favours diversity of knowledge, experience and gender.

In any case, the needs of the Board are contained in the report issued to the Committee of Appointments and Remuneration for this purpose, which includes the aforementioned points.

15. Nominee and independent directors make up a sizeable majority of the board of directors and the number of executive directors is the minimum necessary, taking into consideration the complexity of the group and the percentage of participation of the executive directors in the company capital.

Complies ☒ Partially complies ☐ Explain ☐

16. The percentage of directors representing substantial shareholders out of the total number of non-executive directors is not greater than the existing proportion between the company's capital represented by said directors and the remainder of the capital.

This criterion may be less stringent:

a) In companies with high capitalisation in which there are few share participations with the legal status of significant.

b) When companies are concerned in which there are a large number of shareholders represented in the board of directors and there are no links between them.

Complies ☒ Explain ☐

17. The number of independent directors represents at least half the total number of directors.

However, in cases where the company does not have high capitalisation or when it does and has one or more shareholders who control more than 30% of the capital stock acting together, the number of independent directors represents at least a third of the total number of directors.

Complies ☐ Explain ☒

The company does not strictly comply with the recommendation stating that independent directors should constitute a third of the total number of directors, although it does consider the present number of independent directors to be sufficient for the following reasons, taking the situation on 31 December 2017 as a reference point:
a) The independent (3) directors of the total number of external nominee (6) directors represents a third.

b) The presence of the independent directors is reasonably sufficient to protect the interests of minority shareholders.

c) The current number of independent directors is considered adequate for the free-float of the Company (approximately 50 percent).

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Date of first appointment as director of the company and of the subsequent re-elections.

e) Shares held in the company and any options on the same.

Complies ☒ Partially complies ☐ Explain ☐

19. Following verification by the nomination committee, the corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

21. The Board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Articles, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a Board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in Board membership ensue from the proportionality criterion set out in recommendation 16.

Complies ☒ Explain ☐

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be and, in particular, to inform the Board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board should give a reasoned account of all such determinations in the corporate governance report. The Board should give a reasoned account of all such determinations in the corporate governance report.

Complies ☒ Partially complies ☐ Explain ☐

23. All the directors clearly express their opposition when they consider that a proposal submitted to the board of directors might harm corporate interests. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking Board representation.

When the Board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the Board, even if he or she is not a director.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the corporate governance report.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company Boards on which directors can serve.

Complies ☐ Partially complies ☒ Explain ☐

The annual Working Plan of the Appointments and Remuneration Committee includes the annual review of the directors' commitments and other professional obligations.

The Company has no established rules on the number of boards that directors can belong to, given that their effect on the availability of time to perform their functions in the Company shall depend on the level of occupation and responsibilities held on the other boards, which shall be studied in each particular case.

26. The Board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies ☒ Partially complies ☐ Explain ☐

27. Director absences should be kept to a strict minimum and quantified in the corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies ☒ Partially complies ☐ Explain ☐

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies ☒ Partially complies ☐ Explain ☐

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies ☒ Explain ☐ Not applicable ☐

31. The agendas of Board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairperson may wish to present decisions or resolutions for Board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies ☒ Partially complies ☐ Explain ☐

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies ☒ Partially complies ☐ Explain ☐

33. The chairman, as the person charged with the efficient functioning of the Board of directors, in addition to the functions assigned by law and the company's Articles, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's first executive officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues and approve and review refresher courses for each director, when circumstances so advise.

Complies ☒ Partially complies ☐ Explain ☐

34. When a lead independent director has been appointed, the Articles or Board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies ☐ Partially complies ☐ Explain ☒ Not applicable ☐

Neither the Regulations of the Board or the Articles include functions in addition to those established in art. 529f of the consolidated text of the Capital Companies Act for the Coordinating Director.

The Board of Directors understands that said legal are functions are sufficient to ensure that the Coordinating Director carries out his/her functions adequately, without the need to assign any others.

35. The Board secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies ☒ Explain ☐

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weaknesses detected in:

a) The quality and efficiency of the Board's functioning.

b) The performance and membership of its committees.

c) The diversity in the composition and competencies of the board of directors.

d) The performance of the chairperson of the board of directors and the chief executive of the company.

e) The performance and contribution of each director, with special attention being paid to the ones responsible for the board committees.

The evaluation of Board committees should start from the reports they send the Board of directors, while that of the Board itself should start from the report of the nomination committee.

Every three years, the Board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the corporate governance report.

The process and areas assessed shall be described in the annual report of corporate governance.

Complies ☐ Partially complies ☒ Explain ☐

The Company complies with the recommendation, with the exception of the Committee's Report for assessment and the report of the Appointments and Remuneration Committee for assessment of the Board.

The permanent exchange of information between the Board and the Committees means that all the members of the Board have sufficient knowledge and criteria to carry out the assessment in accordance with the process indicated in this Corporate Governance Report.

As regards the assistance of an external adviser, the Company did not consider it appropriate to contract an external consultant in 2017, although this possibility was considered by the Board of Directors based on a proposal from the Committee of Appointments and Remuneration and a decision on it has been postponed for 2018.

37. When an executive committee exists, its membership mix by director class should resemble that of the Board. The secretary of the Board should also act as secretary to the executive committee.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

38. The Board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all Board members should receive a copy of the committee’s minutes.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

39. All members of the audit committee, particularly its chairperson, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Complies ☒ Partially complies ☐ Explain ☐

40. Under the oversight of the audit committee, a unit is provided for that assumes the function of internal audit, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board’s non-executive chairperson or the chairperson of the audit committee.

Complies ☒ Partially complies ☐ Explain ☐

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

42. The audit committee should have the following functions over and above those legally assigned:

1. With regard to the information and internal control systems:

   a) Supervise the preparation process and integrity of the financial information on the company and its group, reviewing compliance with legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting standards.

   b) Ensure the independence of the unit that takes on 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) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

   a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

   b) Ensure that the remuneration of the external auditor for his/her work does not compromise its quality or independence of same.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for it.

d) Ensure that the external auditor has a yearly meeting with the Board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's

business and other requirements concerning auditor independence.

Complies ☐ Partially complies ☒ Explain ☐

The Company complies with the recommendation apart from the annual meeting of the Board in full with the external auditor, given that it is the Audit Committee that holds regular meetings with the external auditor, in which the latter reports on work carried out, progress of the accounting situation and the risks of the Company, etc. The Audit Committee reports to the Board in detail, verbally and through the minutes, about dealings with the external auditor.

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies ☒ Partially complies ☐ Explain ☐

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, if applicable, the exchange ratio proposed.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

45. If the risk control and management policy identifies at least the following:

a) The different types of financial and non-financial risk (including operational, technological, legals, social, environmental, political and risks to reputation) the company may face, including contingent liabilities and other off-balance risks amongst those of a financial nature.

b) The risk level setting that the company regards as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies ☒ Partially complies ☐ Explain ☐

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of directors.

Complies ☒ Partially complies ☐ Explain ☐

47. Appointees to the Appointments and Remuneration Committee – or of the Appointments committee and Remuneration Committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies ☒ Partially complies ☐ Explain ☐

48. Large capitalisation companies should operate separately constituted Appointment and Remuneration Committees.

Complies ☐ Explain ☐ Not applicable ☒

49. The nomination committee should consult with the company's chairman and first executive, especially on matters relating to executive directors.

When there are vacancies on the Board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies ☒ Partially complies ☐ Explain ☐

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the Board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies ☒ Partially complies ☐ Explain ☐

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies ☒ Partially complies ☐ Explain ☐

52. The terms of reference of supervision and control committees should be set out in the Board of directors regulations and aligned with those governing legally mandatory Board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first Board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all Board members.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the internal codes of conduct and the rules of corporate governance.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political risks and risks to reputation.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies ☐ Partially complies ☒ Explain ☐

Some of the functions indicated in the recommendation are assigned to the Audit Committee, while others are not, such as those relating to the policy and strategy regarding corporate social responsibility, which is reported in the Annual Report.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies ☐ Partially complies ☒ Explain ☐

The Company has not consolidated its corporate social responsibility activities and policies, which are present and taken into account in all the area of management in decisions made by the Company.

The Annual Report reports on the activities taken with regard to corporate social responsibility, the most notable of which include:

a) Occupational health and safety

b) The environment, holding the Certificate ISO 14001.

c) Quality, with certificates such as the ISO 9001, ISO/TS 16949, PED (European Pressure Equipment Directive), IBR (Well Known Pipe Marker) and others.

d) Collaborations with not-for-profit organisations.

For the first time in its history, the Company drew up a Sustainability Report for the financial year 2017, which sets out to exhaustively describe the activities and results of the Tubos Reunidos Group in the economic, environmental and social areas. Said Report presents data belonging to different departments that enables the particular situation of each one to be understood and for any possible future risks to be identified. The standard proposed by the Global Reporting Initiative (GRI) Organisation was followed to prepare the document.

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology

Complies ☒ Partially complies ☐ Explain ☐

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not as high as to compromise the independent judgement of non-executive directors.

Complies ☒ Explain ☐

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated based on share price movements and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies ☐ Partially complies ☐ Explain ☒

In 2017, the pension systems were circumscribed to the Chairman of the Board until 21 December 2017. The Committee of Appointments and Remuneration, in accordance with the provisions of the Articles, proposed to the Board of Directors in 2011 a series of contributions to a pensions system in its favour, taking into consideration its dedication to the Company and the fact that in the 20 plus years of work given over to the Group no contribution whatsoever had been made to a pensions system.

As regard variable remuneration:
1.- The A and R Committee set forth a proposal which was then approved by the Board, for variable remuneration for the Chairman of the Board of Directors until 21 December 2017 of between €0 and €250,000, assigning 25% of said sum for compliance with quantitative objectives and 75% to Corporate Governance objectives. Along with the Executive Vice-Chairman, appointed as Chairman on 21 December 2017, he is the only member of the Board of Directors to benefit from a variable remuneration system, in addition to the remuneration indicated below for the Board as a whole.

2.- With regard to the Executive Vice-Chairman (Executive Chairman since 21 December 2017), the Contract he signed contains an annual variable remuneration for a maximum amount of 50 percent of the fixed sum, depending on the fulfilment of the objectives set by the Board of Directors from proposals given by the Committee of Appointments and Remuneration. The Contract also establishes a multi-annual variable payment linked to share price trends, which can take the form of stock options, the terms of which can be summarised as follows:

a) The object of said Plan are 2,000,000 shares of the Company, the benchmark price is the average closing rate of the shares in the 30 Stock Market sessions following execution of the Contract entered into on 7 February 2017. The initial benchmark price is the average closing rate of the shares in the thirty sessions of the Stock Exchange following signing of the Contract (€1.00). The period for exercising said Plan is as follows:

. 50% of the Plan (1,000,000 shares) shall be exercisable within 1 month dating from the 2nd year calculated from the 7 February 2017, after which it shall be extinguished. This first participation shall be settled by the difference between the benchmark price and the one resulting from quotation of the shares on the Stock Market on the date this first participation of the Plan is reported in the financial year. However, without prejudice to the corresponding accrual, it shall not redeemable until the second participation of the Plan is exercisable (March 2021) and always on the condition that the executive Vice-Chairman remains in the Company.

. The other 50% of the Plan (1,000,000 shares) consists of a call option that accrues in the second year by the difference in the share price and shall be redeemable and exercisable in the month following the fourth year of his/her mandate (March 2021). If said 50% call option is not exercised in the period, then the second option shall be extinguished and the Company may choose between:
a) settling same in the same way as the first participation by the difference between the benchmark price and the one resulting from quotation of the shares on the Stock Exchange on the data the exercise of the option is announced, or
b) the share call option may be exercised by the Executive Vice-Chairman at the benchmark price (this option requires the agreement of the Executive Vice-Chairman), or
c) a combination of the two (this option requires the agreement of the Executive Vice-Chairman).

The rights of the Plan are non-transferable, either by inter vivos or mortis causa dispositions.

The remuneration plan was approved by the General Meeting of 22 June 2017, on modification of Article 26 of the Articles of Incorporation.

3.- The Secretary/Coordinating Director has no variable remuneration other than that received by the other Directors.

4.- The remunerations of the Directors are based more than anything on a fixed remuneration and attendance allowances. However, the Board has a very small variable remuneration equal to 0.5% of the consolidated net profit, which is distributed on a straight-line basis amongst all the Directors. This part of the remuneration to the Board, in line with the principles of good corporate governance, can be regarded as of little importance and influence on the overall remuneration remuneration of the Board.

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance

of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies ☐ Partially complies ☐ Explain ☒ Not applicable ☐

The most significant part of the variable remuneration (75%) of the Chairman up to 21 December 2017 indicated in the section above is based on compliance with the objectives of Good Corporate Governance and is quantified based on the results of the assessment conducted with the other members of the Board, then in response to the recommendation criteria.

As regards the remuneration policy of the Executive Vice-Chairman (Executive Chairman since 21 December 2017), the objectives set for him by the Board for receiving an annual variable remuneration at a maximum amount of 50% of the fixed remuneration are based on his professional performance and not just on the general progress of the markets or the sector of activity of the company.

On the other hand, although the variable remuneration of the Board is directly and exclusively related to the economic performance of the Company (0.5% of the consolidated profit), as indicated in the section above, it is of little importance and so the precautions stated in this recommendation are not necessary.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies ☐ Partially complies ☐ Explain ☒ Not applicable ☐

A multi-annual variable remuneration has been established for the Executive Chairman since 21 December 2017 which is linked to share trends, which can take the form of stock options, of which 50 percent accrues in the second year, by the difference in share prices, but which is only redeemable and payable in the fourth year. The other 50 percent is realised on at the end of the fourth year and can be settled by difference or in stock options.

It can therefore be said that a major part of the variable remuneration components of the Executive Chairman have been deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares

equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies ☐ Partially complies ☐ Explain ☒ Not applicable ☐

The explanation given in the section above is also applicable to this one. After assigning the shares and options to the Executive Chairman, he cannot exercise until the end of the fourth year. However, there is no lock-up period in the strict sense of the word.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies ☐ Partially complies ☐ Explain ☒ Not applicable ☐

The Executive Chairman receives an ordinary variable remuneration that is applied on a yearly basis, for a maximum amount of up to 50% of his fixed salary and any possible subsequent recovery of same for non-compliance is not applicable in this case.

However, the variable remuneration plan via shares and stock options does include the fact that the first part of the plan (the first 50%, equivalent to 1,000,000 shares) is not paid until the fourth year, although it is accrued in the second and is subject to the condition of service in the company on said date.

The Company therefore understands that this protective measure, of deferring the time of payment, is sufficient as a precautionary measure for knowing about the real performance conditions and accuracy of the information, before paying the variable remuneration.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

# H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate

   Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. This section may include any other information, clarification or observation related to the above sections of this Report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the Company voluntarily subscribes to other international, sectoral or other ethical principles or standard practices. If applicable, identify the Code and date of adoption.

In section C.1.11, it is indicated that Mr. Guillermo Ulacia, chief executive of the Tubos Reunidos Group, has executive functions in all the companies that are fully participated in by Tubos Reunidos.

With regard to section C.1.15, it should be indicated that Mr. Pedro Abasólo stood down as Chairman on 21 December 2017 and had rights accumulated in his pension system for the sum of €1,733,000. They are not recorded in section C.1.15 in the form of accumulated rights on the closing data because the provision was paid in full prior to 31 December 2017.

As regards section C.1.26, on the age limit of the Directors, it should be clarified that the Articles do not establish any age limit for the post and that the Regulations of the Board in Article 18 establish the indicated ages only as an obligation for putting the post at the disposal of the Board, without prejudice to what the Board may decide with regard to the Director continuing or standing down from the post.

Section C.1.38 states that the annual accounts audit report for the previous financial year (2016) has not qualified opinions or reservations. To further clarify this section, it should be indicated that said audit report shows some uncertainty with regard to the process of restructuring the bank debt that generated doubts about the capacity of the Group to continue as a functioning company, which was resolved with the signing of a syndicated loan on 12 May 2017, as reported to the CNMV via the corresponding Relevant Fact.
It should also be noted for maximum transparency that although the external auditor has not issued the audit report on the accounts for the financial year 2017, it may contain a similar paragraph on the capacity of the Group to continue as a functioning company, due to uncertainties about compliance with certain parameters, aspects and variables of the business and activities of the Group in 2018 (change in the dollar, price of scrap, labour plan).

With regard to section C.1.45, on the agreement between the company and its administrative and management staff holding compensation, guarantee or protection clauses, the contract clauses are included in the Annual Remuneration Report of the Board that is subject to a consultative vote of the General Meeting.

INCLUSION OF A NEW, SPECIALLY-QUALIFIED INDEPENDENT DIRECTOR. The inclusion of the independent director, Mr. Juan María Román Goncalves in 2017 and his appointment as Chairman of the Audit Committee implies a clear commitment to continuing with the standards of good corporate governance, which recommend the selection of highly qualified profiles suitable for exercising said responsibilities. His career as a partner-director of a top level auditing company demonstrates his considerable knowledge of accounting and auditing.

SUCCESSION OF THE CHAIRMANSHIP. On 26 October 2017, the Company informed the CNMV of the succession in the chairmanship of the company, which took place in line with the forecast succession and after an orderly process. Mr. Guillermo Ulacia Arnaiz, who was taken on as Executive Vice-Chairman in February 2017, was appointed as Executive Chairman and replaced Pedro Abasólo Alboniga, who was Chairman over the previous 25 years.

APPOINTMENT OF COORDINATING DIRECTOR. Likewise and given the new situation of the chairmanship as an executive post and in line with the legislation on corporate governance, on 26 October 2017, the Company reported the decision of the Board of Directors to appoint the Independent Director, Mr. Jorge Gabiola Mendieta as Coordinating Director.

Both appointments, of Executive Chairman and Coordinating Director, were made effective in December 2017 and were approved after receiving as favourable report from the Committee of Appointments and Remuneration.

In 2017, the period for which two directors were appointed, Mr. Alberto Delclaux de la Sota and Mr. Roberto Velasco Barroetabeña, came to an end. The Company recorded the termination of their mandate as directors on 22 June 2017.

This annual report on corporate governance was approved by the Board of Directors in its session of 27/02/2017.

Indicate if there were directors who voted against or abstained with regard to the approval of this report.

Yes ☐ No ☒

# TUBOS REUNIDOS

SUSTAINABILITY REPORT

2017

## GRI 102-55 Contents GRI

*All the information given in this report is given in good faith and is true, unintended errors or omissions excepted.*

## INTRODUCTION

The purpose of this Sustainability Report is to describe the activities and results of the Tubos Reunidos Group in the economic, environmental and social spheres. Information from different areas is presented to enable the particular situation of each one to be understood and for possible future risks to be identified.
The standard proposed by the Global Reporting Initiative (GRI) Organisation has been followed for the preparation of this document.

## GRI 102-1 Name of the organisation

TUBOS REUNIDOS, S.A.

## GRI 102-2 Activities, brands, products and services

The Tubos Reunidos Group manufactures processes and markets seamless steel tubes in different qualities of steel and in a range of dimensions that cover a broad spectrum of potential market needs.

The main Business Units, Brands, Products and Services are as follows:

- TUBOS REUNIDOS INDUSTRIAL S.L.U. (TRI) (*): Manufactures seamless alloy or carbon quality steel tubes 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 26 and 29 metres respectively.

- PRODUCTOS TUBULARES S.A.U. (PT) (*): Manufactures hot-rolled seamless steel tubes 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 125mm.

- ACEROS CALIBRADOS, S.A.U. (ACECSA): Factory for finishing cold-drawn seamless steel tubes with outer diameters between 6 and 60 mm.

- ROTARY DRILLING TOOLS, INC: Processing, threading and/or finishing with special heat treatments at Houston (USA) of tubing made for the oil sector “Oil Country Tubular Goods” (OCTG). Holds the patent for the connection SemiPremium BTX.

- TUBOS REUNIDOS PREMIUM THREADS, S.L. (TRPT): Along with Marubeni Itochu Steel Inc., it threads the special OCTG tubes manufactured at TRI with the licensed Premium threads of JFE Steel Corporation.

- TUBOS REUNIDOS SERVICES S.L.U.: Produces and markets prefabricated elements, high pressure parts for boilers and equipment, tank heaters and tubing isometrics. It also markets and supplies packets made up of tubes and accessories for projects in different sectors.

- TUBOS REUNIDOS AMERICA INC. : Markets the Company's products in the USA while also distributing the OCTG tubing sent via the TRI plant from the warehouse located in Houston.

***(*)*** The two leading factories (TRI and PT) have an integrated production process, i.e. each one has its own steel mill to make the raw materials necessary to manufacture tubes. (Except for stainless steel and nickel-base alloys)

## GRI 102-3 Location of head office

TUBOS REUNIDOS, S.A.
Barrio Sagarribai, s/n
01470 – AMURRIO (ALAVA-SPAIN)
www.tubosreunidos.com

## GRI 102-4 Location of operations

The main production facilities are located in Spain (Tubos Reunidos Industrial, Productos Tubulares, Aceros Calibrados, Tubos Reunidos Premium Threads and the prefabricated parts plant of TR Services) and in the USA (Rotary Drilling Tools Inc.). The group also has a marketing company (TR Services) in Spain and a distribution warehouse in the USA (Tubos Reunidos América).

The group has its own branch offices in countries such as the USA, France, Italy, the Middle East, China, Indonesia, Mexico, Colombia and Cuba and has commercial representatives in another 26 countries, thus covering practically the entire international market given that our products are exported to over 80 countries.

## GRI 102-5 Ownership and legal form

The share capital of TUBOS REUNIDOS, S.A. as at 31 December 2016 was €17,468,088.80, represented by 174,680,888 shares of €0.10 of nominal value. There is not difference of classes or series in the shares and all grant the same rights.

Said shares are accepted for official quotation on the Stock Exchanges of Bilbao and Madrid. Since 1 July 2005, they have been listed on the continuous market of the Spanish Stock Exchange Interconnection System (SIBE) of the Madrid Stock Exchange. On 22 December 2014, the shares of TUBOS REUNIDOS, S.A. moved from the IBEX Medium Cap index to the Ibex Small Cap index where they are currently traded.
The shareholders with direct or indirect significant holdings, considering the threshold of 3 percent established by Royal Decree 1362/2007, of 19 December, are as follows:

| | 2017 |
|---|---|
| Grupo BBVA | 14.87% |
| Concerted action Family Zorrilla-Lequerica Puig | 10.22% |
| Alantra Asset Management SGIIC,S.A. (Managed funds) | 9.04% |
| 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% |

## GRI 102-6 Markets served

The catalogue of products and services of the Tubos Reunidos Group (GRUPO TUBOS REUNIDOS) covers the tubing needs for different sectors of activity such as Oil & Gas; Refining; Chemical and Petrochemicals; Electrical Energy Generation and Industrial Services, amongst others.

The sales percentages of tubes in millions of € for said sectors can be seen in the graphs below:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| OIL AND GAS | 51% | 33% | 31% |
| ENERGY GENERATION/CHEMICAL AND PETROCHEMICAL | 31% | 47% | 48% |
| INDUSTRIAL APPLICATIONS | 18% | 20% | 21% |

Activities at the production facilities of the TUBOS REUNIDOS Group in Spain have focused on the export market, with 88% of total sales going to this market in 2017.

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| NATIONAL | 13% | 19% | 17% | 13% | 16% | 13% |
| EXPORT | 87% | 81% | 83% | 87% | 84% | 87% |

By geographical areas, the evolution of sales of the TUBOS REUNIDOS GROUP matches the situation and developments in global economic activity and in the sectors where its products have most presence.

Distribution of sales amongst the geographical areas can be seen in the table below:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| EUROPEAN UNION | 31% | 51% | 45% |
| NORTH AMERICA (USA AND CANADA) | 51% | 20% | 28% |
| FAR EAST | 10% | 13% | 15% |
| MIDDLE EAST AND AFRICA | 6% | 14% | 10% |
| OTHERS | 2% | 2% | 2% |

## GRI 102-7 Scale of the organisation

The total number of employees is presented as the number of employees in the workforce of the Tubos Group on the closing date of each financial year and by the location of the work team:

| | 2017 | 2016 | 2015[1] |
|---|---|---|---|
| Spain | 1,363 | 1,457 | 1,582 |
| USA | 97 | 62 | 6 |
| Mexico | - | - | 60 |
| China | - | - | 72 |
| **TOTAL** | **1,460** | **1,519** | **1,720** |

The sales of the Group assigned according to the country in which the client is located are shown below in thousands of euros:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Spain | 52,514 | 56,858 | 67,420 |
| Other EU Countries | 73,169 | 79,899 | 101,662 |
| USA | 134,667 | 37,928 | 94,135 |
| Other OECD* Countries | 21,002 | 16,751 | 35,862 |
| Rest of World | 39,804 | 55,530 | 53,399 |
| **TOTAL** | 321,156 | 246,966 | 352,478 |

*Canada, Iceland, Norway, Switzerland, Turkey, Japan, Australia, New Zealand, Mexico and South Korea

The total capitalisation of the Tubos Reunidos Group is shown below in thousands of euros:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Borrowed resources and other liabilities * | 282,433 | 260,305 | 265,213 |
| Minus: Cash and other equivalent means and other current financial assets | (18,996) | (8,140) | (32,347) |

[1] Includes the workforce of the distribution and automotive segments, transferred in the financial years 2017 and 2016 respectively.

| | | | |
|---|---|---|---|
| | 263,437 | 252,165 | 232,866 |
| Net Equity | 144,114 | 181,943 | 244,175 |
| Total Capital | 407,551 | 434,108 | 477,041 |
| Leverage ratio | 64.64% | 58.09% | 48.81% |

* "Borrowed resources and other liabilities" includes long and short term borrowed resources, suppliers of fixed assets, finance lease liabilities, debts with official organisations for subsidised loans and debts with Public Administrations.

## GRI 102-8 Information on employees and other workers

The staff of the TUBOS REUNIDOS GROUP by gender in recent years is as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Women | 124 | 150 | 131 |
| Men | 1336 | 1369 | 1369 |

The breakdown of the data for 2017 is as follows:

| | Indefinite | Temporary[2] |
|---|---|---|
| Women | 109 | 15 |
| Men | 1148 | 188 |

| | Indefinite | Temporary |
|---|---|---|
| Spain | 1257 | 106 |
| USA | 0 | 97 |

| | Full Time | Part Time |
|---|---|---|
| Women | 123 | 1 |
| Men | 1333 | 3 |

## GRI 102-9 Supply chain

The Tubos Reunidos Group has a base of over 1500 suppliers worldwide. Given that the group is a steel company; its suppliers are closely linked to the recycling sectors and the circular economy, raw materials for manufacturing steel, etc. It is also an intensive industry in terms of energy consumption.

[2] The average number of hours worked has been accounted for to calculate the temporary contracts (data from the month of December)

The aim of the Tubos Reunidos Group sustainability strategy for the supply chain is to contribute towards creating sustainable production environments that are efficient in the use of natural resources and energy and that also guarantees respect for human and employment rights of our suppliers' workforces.

## GRI 102-10 Significant changes to the organization and its supply chain

**Changes in operations**: After the entry into operation of the Plant of TUBOS REUNIDOS PREMIUM THREADS, S.L. and the purchase of the business of RDT, Inc. in 2016, 2017 was a year of consolidation of these activities. Sale of the distribution segment took shape in the first half of the year. There were no other significant changes in the operations of the Tubos Reunidos Group.

**Changes in the structure of the share capital**: There were no significant changes in the share capital structure in 2017. For further information, see indicator 102-5 of this report.

**Changes in the supply chain**: There were no significant changes to the supply chain in 2017.

## GRI 102-11 Precautionary Principle or approach

Ever since its inception, the Tubos Reunidos Group has demonstrated a firm ethical commitment and understands that the best way to comply with it is by establishing effective internal standards and procedures that help it to:

- Develop its activities in accordance with rigorous rules of conduct and legislation currently in force.
- Implement operating standards and communication control systems to stop its activities from being used for illegal purposes.
- Ensure that all its employees observe the crime prevention policies and procedures.
- Strictly comply with criminal law.

The *Code of Ethical Conduct* of the Tubos Reunidos Group reiterates its commitment to integrate social, labour and environmental criteria into the management of its Companies, which include:

Respect for the environment: Respect for the environment and a commitment to sustainable development are the foundations for the basic activities of Tubos Reunidos and compliance with environmental legislation is a major priority in its activities and measures.

Occupational health and safety: Application in all the Group Companies of adequate management systems and resources for occupational risk prevention is not the only method used, we also actively participate along with public institutions and trade union and employers' organisations in the design and development of projects that promote implementation of a preventive culture to reduce occupational risks and accidents in the companies of the sector.

The Tubos Reunidos Group is committed to showing the greatest respect for the environment in its activities, to minimise any negative effects that they might have and to provide its employees with the means to mitigate them. The Tubos Reunidos Group undertakes to strictly comply with any applicable environmental legislation.

Alongside the strictest possible compliance with legislation, the Tubos Reunidos Group undertakes to contribute towards conserving natural resources and spaces that are of ecological, scenic, scientific or cultural interest.

## GRI 102-12 External initiatives

The Tubos Reunidos Group is committed to applying the contents of 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 and the International Labour Organisation.

## GRI 102-13 Membership of associations

The Tubos Reunidos Group participates in specific industrial and business associations at local, regional, state and international levels. The Tubos Reunidos Group participated in 16 associations in 2017.

The associations that the Tubos Reunidos Group participated in over the year were:

Asociación Progreso de la Dirección (APD)
Círculo de Empresarios Vascos
Clúster de Energía
European Steel Tube Association (ESTA)
Asociación de exportadores de equipos y servicios para la manipulación de fluidos (FLUIDEX)
Asociación de Empresas con Gran consumo de Energía (AEGE)
SEA Empresarios Alaveses (SEA)
Asociación Nacional de Fabricantes de Bienes de Equipo (SERCOBE)

Asociación Española de Exportadores de Productos e Instalaciones Siderúrgicas (SIDEREX)
Foro Gestión y Finanzas
Instituto de Consejeros y Administradores (ICA)
Unión de Empresas Siderúrgicas (UNESID)
Asociación Bilbaína de Amigos de la Opera (ABAO)
Euskalit - Gestión Avanzada
Federación Vizcaína de Empresas del Metal (FVEM)
National Association of Steel Pipe Distributors (NASPD)

## GRI 102-14 Statement from senior decision-maker

We managed Tubos Reunidos in 2017 within a market context that continued to be marked by the transformational changes undergone by our sector. High over-capacity, a large part of which comes from countries manufacturing at low cost, reduced growth in demand for tubing, more stringent demands from clients who ask for ever greater performance from tubes as a result of technological advances in their facilities and pricing pressures that lead to major reductions in profits are creating changes in the business and company models for tubing manufacturers. Companies are executing radical plans for greater efficiency, closing unprofitable capacity and opening new capacity in more competitive zones, developing new solutions for products and services that enable differentiation and better positioning in the market.

The results of Tubos Reunidos in 2017 were affected by this market environment. Although the Company obtained an increase of 60.3% (€312.5 million) in net turnover in comparison to 2016, supported by the reactivation of activity in shale drilling in North America after recoveries in oil prices, the EBITDA rose to €11.8 million and the net result was a negative sum of €32.4 million, which means losses for the third year running.

In this context we decided to initiate our Transforma|360$^0$ Value Creation Plan at Tubos Reunidos in 2017, which is a plan for competitive adjustment with a reconversion of the business and company model, with the aim of quickly obtaining the levels of profitability and cash flow generation required to ensure the future sustainability of the Group as a seamless tubing manufacturer based in the Basque Country.

The execution of this programme is indicative of our commitment as a company to maintain the industrial activity that the Group has carried out in the Basque Country for 126 years.

This programme involves the implementation of processes of excellence in management that shall be the foundations of our future profitability, including:

- **A new margin-oriented commercial management approach**: boosting value engineering for the client that focuses on a simplified and improved top-range product portfolio, incorporating a price policy aligned with service levels.

- **Improved productivity and costs via a constant search for operational efficiency**:

  - ✓ **Manufacturing efficiency**: by the implementation of lean manufacturing processes, with increased productivity of industrial equipment and operators, accompanied by a redefined plant maintenance strategy.

  - ✓ **Streamlining of technical processes**: with improvements in consumption and output of raw materials, energy and other consumables, as well as by reducing wastage during steel and tubing manufacturing processes.

  - ✓ **Reduced supply costs**: via improvements in purchasing processes and in scrap, energy, consumables and other supplies.

  - ✓ **Reduction of general and structural costs.**

- **Minimisation of levels of working capital** necessary for activities and client services (raw materials, product undergoing processing and finished product).

- **An industrial reconfiguration of the Group by streamlining production units** and eliminating value-destroying production processes.

Tubos Reunidos also maintains a commitment to business sustainability in the broadest sense of the word, actively seeking to generate value for stakeholders.

Tubos Reunidos is geared towards establishing a working environment that boosts creativity and innovation amongst staff by balancing the competences, knowledge and skills required by the Company, especially in key posts.

The Company is made up of a workforce of 1,460 professionals, located in Spain and the USA. where Tubos Reunidos has commenced its process of international expansion. Convinced as we are of the essential contribution of value by people to the company project, in 2017, we invested more than 14,000 hours in training, mainly in Occupational Risk Prevention, given that people's occupational health and safety is a priority in our management approach. We have worked on health care with campaigns on prevention, equality and work/life balancing measures.

In the environmental area, the Tubos Reunidos Group has taken on the commitment to reduce the potential environmental impact of its activities.

One of the essential values of the Tubos Reunidos Group is to create long-term sustainable value for our clients, employees, shareholders, suppliers and for society in general and it defines itself as a business group that is socially committed to human rights, ethics, integrity, good governance and sustainable development.

Proof of this is in the review of the Group's crime and fraud prevention model, developed in 2016. The results of the review were the ethical Code of Conduct for Group administrators, managers and employees and the Whistle-blower Channel installed in the Group website and that of some branch companies.

With all these actions, the Tubos Reunidos Group reiterates its firm commitment to integrating social, labour and environmental criteria into the management of all its companies, seeking sustainable added value creation to improve the Tubos Reunidos Group in the medium and long term.

I would like to express my deepest gratitude to all the people who have helped us to reach all our objectives, to continue to build a more solid company and maintain a brand recognition that identifies us as the leading technology company in seamless tube manufacturing based in the Basque Country.

## GRI 102-15 Key impacts, risks and opportunities

The activities undertaken by the companies that make up the Tubos Reunidos Group are subject to the customary contingencies of any business where industrial transformation takes place and are therefore exposed to risks that can impede or hinder the company from achieving established objectives. None of the risks are severe or exceptional, beyond those that inherent to the business in itself. The Group has defined four categories of risks and has established a Risk Control System adapted to each of these categories:

- Strategic Risks. Those that are regarded as key risks directly related to strategic decision making
- Operational Risks. Those that affect operational management in each and every area of business activity.
- Risks of Reliability of economic-financial information. Directly affect the information reported to the Organisation and/or third parties.
- Risks of Compliance. Affect compliance with internal or external regulatory standards (environmental, labour, legal, fiscal, etc.)

Manuals of Procedures, Integrated Management Systems, period and regular internal and external audits have been developed to:

- Identify and assess the key risks in each business area
- Know the risks assumed and the risks to be avoided
- Establish internal and external control systems
- Draw up action plans required to mitigate the identified risks.

The activities of Tubos Reunidos in 2017 happened in a context still marked by the transformational change taking place in our sector, in which high overcapacity, a large part of which comes from countries manufacturing at low cost, reduced growth in demand for tubing, more stringent demands from clients who ask for ever greater performance from tubes as a result of technological advances in their facilities and pricing pressures that lead to major reductions in profits, are creating changes in the business and company models for tubing manufacturers. Companies are executing radical plans for greater efficiency, closing unprofitable capacity and opening new capacity in more competitive zones, developing new solutions for products and services that enable differentiation and better positioning in the market.

In this context Tubos Reunidos set in motion its Transforma|$360^0$ Value Creation Plan, which is a plan for competitive adjustment with a reconversion of the business and company model, with the aim of quickly obtaining the levels of profitability and cash flow generation required to ensure the future sustainability of the Group as a seamless tubing manufacturer based in the Basque Country, with a target ROCE[3] of over 7%.

In a first phase of $360^0$ analysis, taking the best practices of the sector worldwide as a benchmark, Tubos Reunidos identified an improvement potential of the net operating income (EBITDA), of €45 million, over an *EBITDA base*[4] and a reduction of working capital requirements of €35 million. In a second phase, the Company completed a deployment process of initiatives, with the involvement of the entire organisation, which confirmed the potential identified and that gave shape to the execution plan initiated at the end of the first half of 2017 and with a duration of 24 months, including:

- **A new margin-oriented commercial management approach**: boosting value engineering for the client that focuses on a simplified and improved top-range product portfolio, incorporating a price policy aligned with service levels.

- **Improved productivity and costs via a constant search for operational efficiency**:

  - ✓ **Manufacturing efficiency**: by the implementation of lean manufacturing processes, with increased productivity of industrial equipment and operators, accompanied by a redefined plant maintenance strategy.

  - ✓ **Streamlining of technical processes**: with improvements in consumption and output of raw materials, energy and other consumables, as well as by reducing wastage during steel and tubing manufacturing processes.

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[3] ROCE: EBITx(1-Tax Rate)/Invested Capital

[4] *EBITDA base: TMs of 2014, prices of product mix in 2017.*

- ✓ **Reduced supply costs**: via improvements in purchasing processes and in scrap, energy, consumables and other supplies.

- ✓ **Reduction of general and structural costs**:

  - Unification, consolidation and rationalisation of the business support functions at Group level and activation of austerity policies for general costs.

  - Streamlining of management processes and business support systems.

– **Minimisation of levels of working capital** necessary for activities and client services (raw materials, product undergoing processing and finished product).

**An industrial reconfiguration of the Group by streamlining production units** and eliminating value-destroying production processes.

With the implementation of this Transforma 360º Plan, the Tubos Reunidos Group sets out to ensure the continuity of the Group in the current environment.

## GRI 102-16 Values, principles, standards and norms of behaviour

The organisation shows positive concern for legality and ethics, which is at the centre of the strategy of the Tubos Reunidos Group, in its business model and in its decision making chain. The objectives of compliance form part of the company's strategy and together with the values, principles, standards and norms of behaviour of the Group, can be seen in the *Code of Ethical Conduct*, which not only prohibits criminal conduct, but also behaviour that infringes integrity, honesty and respect, in short, the values of the company and of humanity in general. Likewise, its *Criminal Liability Prevention Plan* contains measures that put into practice the concerns of Tubos Reunidos with regard to ethical conduct and legality.

Tubos Reunidos thus has a firm commitment, laid down in both documents, to ethical principles, good corporate governance and transparency. The aspiration of the organisation is for its conduct and that of the persons linked to the Group, including all the participants in the value chain, respond to and respect generally accepted ethical principles and concepts of social accountability alongside the legislation currently in force and the corporate governance system. The organisation exercises suitable control over the activities of its managers and employees and the governing body has adopted an organisational and management model appropriate for the size and activities of same, which includes the Code of Ethical Conduct and the Criminal Liability Prevention Plan, with effective preventive measures.

The *Code of Ethical Conduct*, which has been in existence since 2003, consolidates the Mission, Vision and Values of the Group and establishes a set of principles and guidelines for conduct geared towards ensuring ethical and responsible behaviour of the professionals of the Group when carrying out their activities. These principles conduct guidelines are applicable to all the professionals of the Group, regardless of their level in the hierarchy, their geographical or functional location and the Group company where they work.

The body responsible for ensuring application of the Code and for overseeing and supervising that the prevention model is actually complied with, which is collegiate and internal, is the Independent Control Body, which can be contacted by anyone to report possible illegal activities.

This commitment to ethics and good governance is in turn transmitted to those third parties with whom the Group is related via a series of initiatives, including the insertion of clauses in contracts with suppliers that require them to have a compliance system and to respect the Code of Ethical Conduct.

## GRI 102-17 Mechanisms for advice and concerns about ethics

There are internal and external advisory mechanisms to encourage legal and ethical conduct, along with whistle-blower channels for presenting reports of conduct that goes against ethics, the law or that affect the integrity of the organisation. Advice can be requested about whether a certain type of conduct is ethical and to receive information about concerns relating to unethical or illegal conduct and the integrity of the organisation.

Since it was set up, the Independent Control Body has established a global operational framework by defining and monitoring a system of ethics and compliance, designed in accordance with the size and activities of the organisation.

The compliance system of the Group involves regular risk assessments, training, dissemination and communication, an ethics inbox, complaints investigation and corrective and disciplinary measures. The principal aim of the compliance system is to further the activities of the organisation in accordance with ethics and current legislation, through a set of procedures and activities designed to prevent, detect and react to irregular activities, fraud or acts against the *Code of Ethical Conduct* of the Group or current regulations.

One of the essential elements of the compliance system is detection and/or monitoring mechanisms that check that the controls and prevention activities developed within the Group are effective. These mechanisms include ethical channels that are configured as transparent tools to report conduct that might involve irregular conduct or acts that are illegal or go against the standards contained in the ethical codes. These channels may also be used for queries about points relating to the interpretation of and compliance with the ethical codes. Any information received via these channels is treated as confidential.

The whistle-blower channel of the Tubos Reunidos Group is established in clause 7 of the Code "Channels for communication and complaints", which enables conduct, actions or facts about managers or employers that involve infringements of same to be reported. In particular, complaints about conduct that violates the Code can be sent to an electronic mail address: canaldedenuncias@tubosreunidos.com. This is a mechanism that can be used anonymously and confidentially and any possible reprisals are prohibited. Management of the ethical inbox is the responsibility of the Independent Control Body.

Information about the whistle-blower channel is permanently available and accessible on the web page of the Group in the section "Our Values". In 2017, greater visibility was given to the whistle-blower channel on the websites of the companies Tubos Reunidos S.A., Tubos Reunidos Industrial, S.L.U. and Productos Tubulares, S.A.U. and the group of employees that have signed the ethical undertaking of Managers and Employees has been further extended.

As regards communications (queries and complaints) received via the channels established in the Group, a total of 0 queries/complaints were received in 2017.

## GRI 102-18 Governance structure

It is important to point out in this section that Tubos Reunidos is a company that is listed on the Spanish securities market (Spanish Stock Exchange Interconnection System or SIBE), to which the special provisions established in the Spanish Capital Companies Act on corporate governance apply.

Likewise, as a listed company, it is subject to the regulations and supervision of the 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 the Company.

Except for those matters reserved by law and the Articles of Incorporation for the General Meeting, the Board of Directors is the maximum decision making body of the Company after the General Shareholders' Meeting.

The Board of Directors appoints and constitutes an Executive Committee as well as non-decision making Supervisory Committees: and 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.

## GRI 102-19 Delegating authority

The delegation of authority and powers for economic, environmental and social issues of the Board of Directors to the senior executives and other employees is carried out as follows:

a) Via general powers of attorney from the Board to the chief executive of the Company, to whom a series of powers is granted, either jointly or jointly and severally with other persons above certain amounts.

b) Said powers of attorney empower the chief executive to delegate the powers attributed to him to other executives or employees, with the same precautions and guarantees. It is therefore the chief executive who habitually delegates his powers to those who answer to him.

c) As regards those decisions of the Board of Directors that requires actions no included in the general powers of attorney granted to the chief executive, the Board grants special powers to the members of the Board, executives or employees it deems fit on each occasion according to the issue and operations required.

## GRI 102-20 Executive-level responsibility for economic, environmental and social topics

The Company has appointed a Management Committee at executive level presided over by the chief executive, currently the Executive Chairman of the Board. The responsibility for economic, environmental and social topics is respectively assigned to the persons who hold the Directorships of Finances and Management Control, the Directorships of the Tubes Division and Technology, Quality and the Environment and the Directorship of Human Capital Management.

The persons occupying said posts, besides regularly reporting to the chief executive, also regularly report directly to the Board of Directors.

## GRI 102-21 Consulting stakeholders on economic, environmental and social topics

As a general rule, without prejudice to specific actions of major importance, the Board of Directors has delegated relations with stakeholders to the Executive Chairman and the Management Committee, except for those topics regarding relations with the Shareholders, especially in the General Meeting.

All issues arising from said relations, contacts and queries are reported to the Board of Directors by the Executive Chairman or by a member of the Management Committee if necessary.

## GRI 102-22 Composition of the highest governance body and its committees

On 31 December 2017, the Board of Directors was made up of 10 members, of which 6 are nominee directors, 3 are independent and 1 is an executive.

The Executive Committee is configured for 6 members, with representation of all types of Directors.

The Audit Committee is made up of 3 members, with a majority of Independent Directors as required by legislation currently in force.

The Appointments and Remuneration Committee is also made up of 3 members, 2 of which are independent as required by legislation currently in force and who have a majority.

The Chairpersons of both Supervisory Committees are Independent Directors.

The composition of the Board of Directors is as follows:

| Name and surname | Post | Category of Board Member | Committee | Representative | Significant shareholder represented by director | Date of first appointment | Date of most recent re-election |
|---|---|---|---|---|---|---|---|
| Mr. Guillermo Ulacia Arnaiz | Executive | Chairman | Delegate | | | 10/02/2017 | 22/06/2017 |
| Mr. Emilio Ybarra Churruca | Vice-Chairman | Nominee | Delegate | | Mr.Emilio-Ybarra Churruca | 16/08/1999 | 22/06/2017 |
| Mr. Alfonso Barandiarán Olleros | Nominee | Director | | | Mr. Joaquín Gómez de Olea Mendaro | 27/09/2013 | 22/06/2017 |
| Mr. Francisco Esteve Romero | Nominee | Director | Delegate and Audit | | Banco Bilbao Vizcaya Argentaria, S.A. | 30/01/2008 | 22/06/2017 |
| Mr. Jorge Gabiola Mendieta | Coordinating Director | Independent | Audit and Appointments and Remuneration | | | 30/05/2013 | 22/06/2017 |
| Ms. Ana Muñoz Beraza | Independent | Director | Appointments and Remuneration (Chairperson) | | | 07/05/2015 | 07/05/2015 |
| Mr. Enrique Portocarrero Zorrilla-Lequerica | Nominee | Director | Delegate | | Concerted action Zorrilla Lequerica Puig Group | 28/05/2002 | 08/05/2014 |
| Mr. Juan María Román Goncalves | Independent | Director | Audit (Chairman) | | | 22/06/2017 | |
| Ms. Leticia Zorrilla de Lequerica Puig | Nominee | Director | | | Concerted action Zorrilla Lequerica Puig Group | 29/06/2004 | 22/06/2017 |
| D. QMC Director Ships, S.L. | Nominee | Director | Delegate and Appointments and Remuneration | Mr. Jacobo Llanza | Alantra asset management SGIIC, S.A. | 08/05/2014 | 08/05/2014 |

As regards the significant posts and/or undertakings of the Directors:

a) Mr. Emilio Ybarra Aznar is Director of the listed company Elecnor, S.A.

b) Ms. Ana Muñoz is Director of the listed company Natra, S.A.

c) QMC Directorships, S.L. is the managing legal entity of Cie Automotive, S.A. and Adveo Group International, S.A.

d) Mr. Juan Maria Román Goncalves is Director of the listed company Global Dominion Access, S.A. and of the unlisted company E. Erhardt y Cía, S.A.

The Company is not aware of any major commitment of the members of the Board of Directors, or if they are affiliated to under-represented social groups.

The competences of each member of the Board appear in the profile of each one shown in the Company website, in the section Shareholders and Investors-Board of Directors.

## GRI 102-23 Chair of the highest governance body

The Chair of the Board of Directors is also the chief executive of the Tubos Reunidos Group.

The Executive Chairman has the following functions and responsibilities in the area of management of the organisation:

a) Further development of the business carried out by the Company as the chief executive.
b) Be actively involved in the design and execution of a solid business strategy.
c) Execute the business plan and budgets for the Company.
d) Ensure that there is a high level of executive leadership in the Company and the management team.
e) Provide the board of directors with specific information about the progress of the Company's business, facilitating monitoring of affairs within his scope and contributing towards the development of his functions with the maximum efficiency and effectiveness.
f) Objectively assess the development of the Company's business and set directives for guidance in accordance with the habitual practices of the sector.
g) Ensure that shareholders are provided with adequate and sufficient information to control management by the board of directors of the Company's business.

His capacity for the post are a result of his training and professional experience. The Chairman has occupied a post of great responsibility in important industrial sectors of the economy, such as the Steel Industry, Automotion and Energy. In 1995 he joined the steel industry as CEO of operations to lead the implementation of the Strategic Competitiveness Plan of CSI-Planos (Altos Hornos de Vizcaya and Ensidesa) and the subsequent privatisation. In 2000, he became the executive vice-chairman of the Plans Sector of the steel group Arcelor, after leading the integration of the three groups that were merged (Usinor-France, Arbed-Luxembourg, Arcelor Spain). In 2005 he joined the Gamesa Corporación Tecnológica, taking on the post of CEO until 2009. He has also occupied posts of major importance in other companies such as Innobasque (Chairman), Ibermática (Non-Executive Chairman), Grupo Artetxe (Director) and is a member of the Council of Deusto Business School, the Board of Directors of the Instituto Vasco para la Competitividad, Orkestra and is Chairman of Femetal and the Comisión de Industria y Energía of the CEOE.

## GRI 102-24 Nominating and selecting the highest governance body

The Directors are appointed by the General Shareholders' Meeting or in those cases of anticipated vacancy, by the Board of Directors under co-optation.

In accordance with the Regulations of the Board, the Board of Directors should ensure that candidates with recognised competence, experience and prestige are selected. To this end, the Appointments Committee has the following functions assigned to it:

a) Formulate the proposals for appointments, re-elections or separation of independent directors.

b) Report the proposals for appointments, re-elections or separation of the other directors and directorial posts.

c) Check each director and establish if they meet the requirements for appointment as executive, independent external director, external nominee director or other type of external executive when required.

d) 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.

e) 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.

f) Issue an annual report about the members of the board and executive and how they have performed their duties.

g) Establish a target level of representation for the least represented gender on the Board and draw up guidance documents on how to achieve said aim.

## GRI 102-25 Conflicts of interest

The Company has approved a set of Internal Regulations of Conduct, which was sent to the CNMV and is now public, to which the following people are subject:

a) The persons defined as Administrators, along with the Secretary and, when applicable, the Vice-Secretary, whether they are Administrators or not.

b) The CEOs, Managers and members of the management teams.

c) 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.

d) 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.

Persons subject to these Regulations 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 reason.

However, a conflict of interest due to family relations shall not be regarded as taking place when the blood relationship exceeds the fourth degree of consanguinity or the second degree of affinity.

A possible conflict of interest as a result of personal assets may be considered to exist when it arises in relation to a company in which the person has more than a 5% participation in the capital.

Said information should be kept up to date and should include any modification or termination of situations previously reported along with any new conflicts of interest.

Any new information should be reported within 15 days and in all cases prior to any decision that might be affected by the possible conflict of interest.

In the event of any doubts about the existence of a conflict of interest, the person concerned shall inform the Secretary of the Board of Tubos Reunidos about said possible conflict, who, if he deems it necessary, shall submit the matter to the Board of Directors for consideration.

As regards providing information to stakeholders, 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 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.

## GRI 102.26 Role of highest governance body in setting purpose, values and strategy

Pursuant to the Regulations of the Company Board, the Board of Administration is responsible for ensuring that the corporate purpose is maintained, the general interests of the Company are protected and that value is created for the benefit of all the shareholders.

Therefore, the criterion that must be applied at all times to the activities of the Board of Directors is to maximise the Company's value.

For the purposes of the above criterion, the Board should determine and review the business, commercial, industrial and financial strategies, the company planning and investment projects so as to obtain maximum profits at a reasonable risk.

However, the Board delegates day-to-day management of the Company to a Management Committee presided over by the Chairman, although powers that are legally or statutorily reserved for direct use by the Board or those necessary for responsible exercise of the roles of the Board may never be subject to delegation under any circumstances.

At the same time, maximising the Company's value is a necessary task of the Board of Directors in line with the requirements imposed by legislation currently in force, complying in good faith with explicit and implicit contracts entered into with workers, suppliers, financiers and clients and, in general, observing whatever ethical duties reasonably imposed as part of running a business.

## GRI 102-27 Collective knowledge of highest governance body

Pursuant to the Regulations of the Board, the persons proposed to form part of the Board of Directors should stand out for having the knowledge, prestige and professional experience necessary to carry out their duties. In the event that a legal entity is appointed, the same conditions shall be required of the natural person who represents it.

In order to adequately prepare the meetings of the Board, the Regulations of the Board establish that the call for the meetings should be made with at least seventy-two hours notice and that the documents relating to the points on the meeting agenda should be sent with sufficient notice.

Likewise, external members of the Board may agree by majority to contract legal, accounting and financial advisers or other experts at the Company's expense for whatever matters they deem appropriate for assistance in the exercise of their duties.

## GRI 102-28 Evaluating the highest governance body's performance

The Board of Directors shall carry out an annual assessment of its performance and when appropriate it shall propose an action plan to correct any deficiencies detected in view of the assessment results.

The process consists of self-assessment by the members of the Board and includes an evaluation of the performance of the Board, Committees, posts of the Board and the chief executive.

The members of the Board evaluate, in a unified model, a set of questions related to performance, which they send to the Secretary of the Board, who is the only person to know the details of the individual assessments, which are kept secret. The Secretary prepares a summary report, with a range of scores in each question, averages, comments and contributions, comparisons with the previous year, most notable points, etc. This report is firstly analysed by the Committee of Appointments and Remuneration and then by the Board of Directors, attached as an annex to the minutes of the meeting.

## GRI 102.29 Identifying and managing economic, environmental and social impacts

The Audit Committee has the role of regularly reviewing the internal control and risk management systems to enable the main risks to be adequately identified, managed and reported, which it then regularly reports to the Board of Directors.

The Committee has the following mechanisms for this purpose:

a) Review projects carried out provisionally under the supervisions of staff attached to the management control department, with the support of a company outsourced to carry out specific jobs assigned by it.

b) The Financial Information Internal Control System (SCIIF), with quarterly reports about completed and supervised controls.

c) Reviews conducted by external auditors.

The Board of Directors has also implemented a Criminal Liability Prevention Model, which includes a Whistle-blower Channel available on the Company website for all stakeholders, which, besides the aforementioned mechanisms of the Audit Committee, can also help the Board of Directors to identify and manage risks, opportunities and impacts in economic, environmental and social terms.

## GRI 102-30 Effectiveness of risk management processes

As indicated in the section above, the evaluation of the risk management processes is one of the roles of the Audit Committee, as a Supervisory Committee and to this end it can make use of the aforementioned mechanisms, without prejudice to the option of taking its appraisals and conclusions to the Board of Directors as a decision-making body with maximum responsibilities.

## GRI 102-31 Review of economic, environmental and social topics

The Board of Directors meets on a monthly basis, without prejudice to any extraordinary meetings that might be held, while the Executive Committee meets every quarter.

The Audit Committee meets at least five times a year to discuss more specific issues (it held seven meetings last year).

The Appointments and Remuneration Committee met eight times last year.

## GRI 102-32 Highest governance body's role in sustainability reporting

The Board of Directors of Tubos Reunidos, S.A. is the body responsible for reviewing and approving this Sustainability Report for the financial year 2017

## GRI 102-33 Communicating critical concerns

The Chairman of the Board of Directors of the Company, who is the leading executive of the Group, is responsible for presenting any critical concerns and other issues at its regular meetings for discussion. Normally the head of the Department of the Management Team linked to the matter to be discussed accompanies the Chairman during explanations to offer any additional details that the Board of Directors might requires prior to discussing the matter.

## GRI 102-34 Nature and total number of critical concerns

The Board of Directors considers the critical concerns affecting the Company in accordance with the Regulations of the Board of Directors. Some of the critical concerns considered by the Board of Directors are described below.

- The general strategies and policies of the company
- Group of Companies
- General Shareholders' Meeting
- Organisation and management (management of human capital, occupational risk prevention, etc.)
- Annual accounts, transparency and truthfulness of the information and report.

## GRI 102-35 Remuneration policies

The post of administrator is remunerated. The administrators receive remuneration made up of three cumulative items: 1) a set amount, 2) expenses for attending meetings of the Board of Directors, Committees and Executive Committees of same and 3) a share of the profits.

The fixed amount consists of an amount in cash and may be more for those directors who hold certain posts, according to the time, work and responsibilities they assume. This payment may be complemented by contributions to social welfare systems.

Expenses for attending the meetings of the Board, Committees and Executive Committees of same consist of a cash payment per meeting received by directors, which may be higher for directors with posts in said committees or commissions, according to the time, work and responsibilities they assume.

The profit-sharing remuneration consists of an amount equal to zero point five percent (0.5%) of the net profits of the consolidated group and may only be received by the administrators after the legal reserves or the payments that are established under the articles of incorporation have been paid and after issuing the shareholders a minimum dividend of four percent (4%). The profit-sharing remuneration is distributed in a linear fashion amongst all the directors, who all therefore receive the same amount for this item.

Within the limits of the remuneration policy approved by the Company, the General Shareholders' Meeting may establish payment formulae for the administrators consisting of the issue of shares or rights to stock options, or whatever is referenced at the value of the shares. The Board of Directors is responsible for determining the form, amount and conditions in which said formulae shall be made effective.

This 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 said administrator has worked in his post for which said remuneration has been established.

The above payments shall be understood as being without prejudice to the additional payments of board members for executive duties provided for in contracts they entered into in accordance with the provisions of article 249 of the Law. The contract shall describe the item for which payment may be made for carrying out their executive tasks, including, where applicable, possible compensation for early termination of said duties and the sums payable by the company for insurance premiums or contributions to savings systems. The contract should comply in all cases with the remuneration policy approved by the General Shareholders' Meeting.

The payments mentioned in this section 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 relation that is different from the one deriving from the post of administrator, which shall be subject to the legal system applicable to same.

The Company may contract a civil liability insurance policy for directors and managers.

The contract entered into with the Chair, sole Executive Director:

a) This consists of a variable payment of 50 percent of the fixed salary, depending on fulfilment of the annual objectives set by the Board of Directors from proposals made by the Committee of Appointments and Remuneration.

b) It establishes an options plan linked to share values

c) It provides for compensation of an annual sum of the fixed salary in certain situations of early termination, all of which shall be for reasons different from non-compliance with the duties inherent to his post.

d) It does not establish a pension or benefit system for retirement

None of the other directors currently occupying their posts has a compensation agreement for termination of their roles as director and do not have pension plans or benefits for retirement.

As it is a listed company, it presents and submits the Annual Report of Remuneration for Directors to the CNMV and general market, in which the payment policy and the specific application of it are laid out.

In accordance with the criteria of good corporate governance, payment of the external directors (nominees and independent) is practically all fixed, including the expenses for attendance, as consideration for their responsibilities as administrators and time spent, while the variable residual and symbolic component is the one that depends on results (0.5% of net profit for every member). Therefore, it cannot be linked to the remuneration for objectives of senior executives, including the Executive Chairman of the Board.

## GRI 102-36 Process for determining remuneration

In accordance with the remuneration policy mentioned above, the Committee of Appointments and Remuneration annually reviews the specifications of the sums paid to directors (fixed payment and expenses) and makes the appropriate proposals to the Board of Directors.
In its first meeting after being established, the Committee of Appointments and Remuneration agreed to contract external advisers to analyse the payments of the Board, carry out a comparative and market study and make the corresponding proposals, based on the current remuneration system of the Board of Directors.

Likewise, the Committee conducts an annual check of compliance with the objectives established for members of the Management Committee, including the Executive Chairman and the applicable variable payment, which is then submitted to the Board of Directors for approval.

## GRI 102-37 Stakeholders' involvement in remuneration

In the Agenda of the General Shareholders' Meeting of the Company, the Annual Report in Remuneration of the Board is submitted for the Shareholders' 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.

The report was approved with 98.7 percent of the votes in the General Meeting held in June 2017.

## GRI 102-38 Annual total compensation ratio

2017: The best-paid executive of the group received a salary that was 8.35 times more than the average salary of workers of the company

2016: The best-paid executive of the group received a salary that was 5.37 times more than the average salary of workers of the company

2015: The best-paid executive of the group received a salary that was 6.21 times more than the average salary of workers of the company

To calculate the annual total compensation ratio, we considered the average salary of all the group workers without including the one of the best-paid person; in our case, we consider that this person is the group's chief executive.

We should bear in mind that to understand this information on the chief executive of the group, the executive post changed both in terms of status and in terms of the person occupying it in early 2017, changing from CEO of the Group, occupied by Mr. Enrique Arriola to Executive Vice-Chairman, which was taken up by Mr. Guillermo Ulacia in February 2017.

Likewise, in 2016 and 2017 the chief executive and part of the workforce underwent salary reductions due to the economic circumstances of the company, which justifies the reduction of the distance between the average salary and that of the best-paid person.

## GRI 102-39 Percentage increase in annual total compensation ratio

Given the situation in 2016, when a salary reduction was applied to the chief management section of the group and to part of the workforce as a result of temporary lay-offs, we are unable to provide representative data for the percentage increase in annual total compensation ratio.

This data was negative in 2016 and, therefore, the increase in 2017 would be distorted as this lay-off period had ended and a structural change was made to the Group Management Committee.

## GRI 102-40 List of stakeholder groups

The Tubos Reunidos Groups has relations with a number of stakeholder groups on whom any change in the Group's activity might have an effect. Said relations should always comply with the Code of Conduct of the Group, which is based on ethical values. In this regard, one of the essential values of the Tubos Reunidos Group is to create long-term sustainable value for our stakeholders and the company defines itself as a business group that is socially committed to human rights, ethics, integrity, good governance and sustainable development.
There are many stakeholder groups in a group like Tubos Reunidos, but they have been divided into the following categories in order to carry out a more practical analysis:

| | |
|---|---|
| Employees<br>Company Committees<br>Shareholders and Investors | Clients<br>Suppliers<br>Analysts |
| Credit Institutions<br>Regulatory Bodies | Local Communities<br>Public Administrations<br>Training Centres |

## GRI 102-41 Collective bargaining agreements

The situation of each company in the group is described below:

TR, S.A. maintains individual agreements with its workforce.

TRI, S.L.U. has its own collective bargaining agreement.

PT, S.L. has its own collective bargaining agreement.

TRPT, S.L. has no specific collective bargaining agreement for reference.

TRAME applies North American labour legislation.

RDT applies North American labour legislation.

ACECSA referenced to the Navarre metal agreement and improvements have been made.

TR SERVICES referenced to the metal trade agreements of the provinces where it has work centres.

## GRI 102-42 Identifying and selecting stakeholders

The management of the Tubos Reunidos Group carries out an internal process to identify the stakeholders with whom the group's activities are related.

## GRI 102-43 Approach to stakeholder engagement

The Tubos Reunidos Group maintains contacts with stakeholders to identify potential risks and opportunities. Efforts are made in relations with stakeholders to respond as much as possible to the expectations or needs for information of different groups, using the principles of integrity, professionalism and transparency as a basis.
Said communications are conducted with the corresponding deadlines, formats and recipients and always comply with established legal provisions, guaranteeing respect for confidentiality and the privacy of data in its possession.

## GRI 102-44 Key topics and concerns raised

The relationship of transparency and dialogue that we maintain with the stakeholders sets out to create sustainable value and is a key factor for facing the challenges and opportunities that arise in the course of our activities.

Generally speaking, the most important issued discussed with stakeholders are as follows:

- Economic Sustainability
- Human Capital Management
- Environmental Management
- Management of the supply chain

## GRI 102-45 Entities included in the consolidated financial statements

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

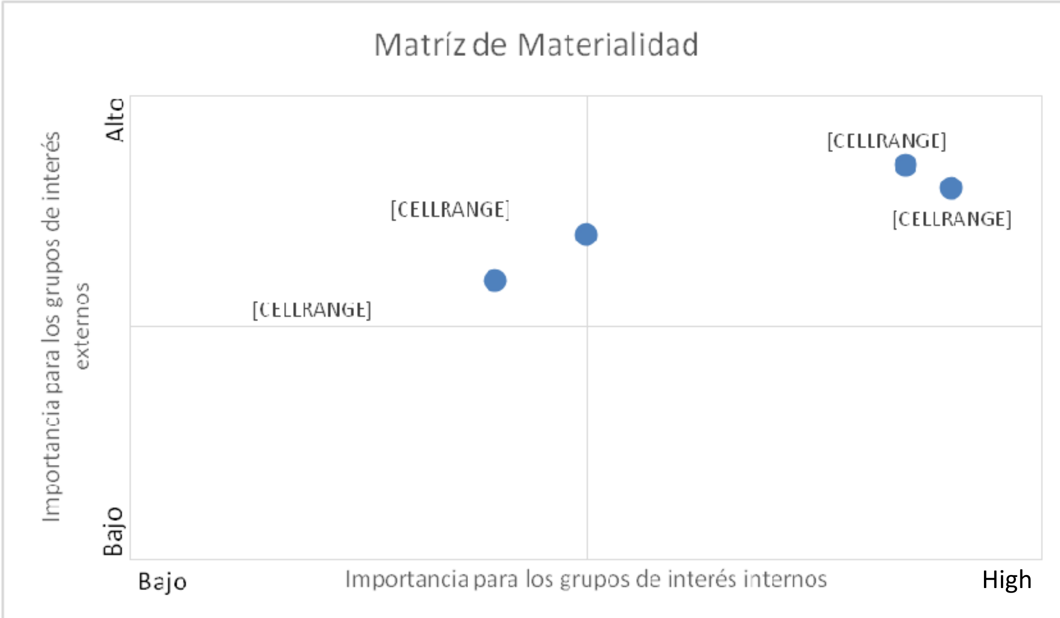
| Company and corporate domicile | Activity | % | Holding Group Company |
|---|---|---|---|
| Tubos Reunidos Industrial, S.L. (Single Shareholder Company) (TRI) Amurrio (Alava) | Industrial | 100 | T.R. |
| Productos Tubulares, S.A. (Single Shareholder Company) (PT) Valle de Trápaga (Vizcaya) | Industrial | 100 | T.R. |
| T.R. Aplicaciones Tubulares de Andalucía, S.A. (TRANDSA) Chiclana (Cádiz) | Without activity | 100 | T.R. |
| Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarre) | Industrial | 100 | T.R. |
| Tubos Reunidos Premium Threads, S.L. (TRPT) Iruña de Oca (Álava) | Industrial | 51 | T.R. |
| T.R. América, Inc. Houston (Texas) | Marketing Company | 100 | T.R. |
| T.R. Comercial, S.A. Amurrio (Alava) | Marketing Company | 100 | T.R. |
| Clima, S.A.U. (CLIMA) Bilbao | Portfolio company | 100 | T.R. |
| Aplicaciones Tubulares, S.L. Bilbao (Vizcaya) | Without activity | 100 | T.R. |
| RDT, Inc. Houston (Texas) | Industrial | 100 | Aplicaciones Tubulares, S.L. |
| Tubos Reunidos Services, S.L. (Single Shareholder Company) Amurrio (Alava) | Industrial / Property | 100 | T.R. |

## GRI 102-46 Defining report content and topic boundaries

The definition of the contents of the Annual Report is based on the materiality analysis. Said analysis includes the interests of the all the stakeholders defined by the Tubos Reunidos Group to establish the most relevant internal and external issues.

## GRI 102-47 List of material topics

The matrix of material topics presented below is an extension of the zone of greatest impact of the global matrix of material topics managed by the Tubos Reunidos Group.




## Economic Sustainability

### GRI 103-1 Explanation of the material topic and its boundary disclosure

The Tubos Reunidos Group, over the 125 years of its existence, has had a clear commitment to forging a long-standing enterprise and to become a leading company in its sector. The Board of Directors and the Management Committee, led by the Executive Chairman of the Group, is therefore responsible for managing the Company with the clear objective of ensuring the Group's continuity.

### GRI 103-2 The management approach and its components

Within the Management Committee, the departments of Finance, Management Control and Strategy and Transformation are responsible for managing resources, means and strategies to live up to this objective.

### GRI 103-3 Evaluation of the management approach

Since 2014, the Tubos Reunidos Group has gone through one of the worst crises in its history. The has been endeavouring to overcome this crisis since then and reach the break-even point that has always characterised it. To this end, the following measures were taken in 2017:

- A restructuring process of its financial debt to adapt future debt repayments to the estimated cash generation in the following years based on its strategic plan. This process conclude with the signing of a syndicated loan on 12 May 2017 with banks for a total of €207 million.
- To guarantee a sustainable result and make maximum use of the invested capital, the Group launched the "Plan Transforma" in the second half of 2017. Said Plan sets out to improve sales activity, increase operational efficiency, improve productivity, gain flexibility and reduce capital investment needs. Over 300 initiatives were defined, involving more than 100 people from all areas of the organisation. The estimated execution period of the initiatives is 24 months and the aim is to obtain a sustainable EBITDA of €45 million on a base year.

These two measures set out to ensure the continuity of the Group in the current market environment and to make it a sector leader once again.

## Human Capital Management

### GRI 103-1 Explanation of the material topic and its boundary disclosure

Human capital management is configured as a strategic element for the Tubos Reunidos project. It is geared towards attracting, developing and retaining talent, providing the company with the right people to deploy its strategy and ensure efficiency, profitability and competitiveness, in a working environment that enables permanent improvement of their professional value. All this takes placed inside secure working conditions that respect the environment.
Our objectives are:

- ❑ Priority: Occupational Health and Safety, ZERO ACCIDENTS
- ❑ Provide the company with the right people, in the right place at the right time
- ❑ Promote integration and a cultural change in the Company, gearing human capital management towards competitiveness, productivity and efficiency, through high performance
- ❑ Strengthen the organisational leadership of management, contributing towards developing their management skills
- ❑ Strengthen commitment, by alignment with the corporate culture, professional development and communication
- ❑ Promote a social dialogue with workers' representatives

### GRI 103-2 The management approach and its components

In recent years, Tubos Reunidos has based its human capital management on:

- Ensuring the inclusion of qualified professionals with values matching those of the company.
- Continuously training our professionals and so ensuring that we have people who are fully prepared for their job.
- Whenever possible, encouraging mobility and development within the company, thereby contributing to our international expansion process.
- Increasing communication by extending and improving our communication channels.

### GRI 103-3 Evaluation of the management approach

The group's companies have training plans that are assessed on a yearly basis.
Over 14,488 training hours and approximately €158,000 in external training were invested in 2017. Internal training forms a part of this considerable time investment, making use of the know-how of the people working at Tubos Reunidos.
It also has internal communications systems that evolved over 2017 to reach the largest possible number of people. Information was sent to all the staff with issues of interest about the company. Human Capital Management created a management area from which all new developments about appointments and the company situation were reported to staff members.

## Environmental Management

### GRI 103-1 Explanation of the material topic and its boundary disclosure

The Tubos Reunidos Group considers the following material topics in the area of Environmental Performance:

- Materials
- Energy
- Water
- Emissions
- Legal compliance
- Environmental assessment of suppliers

### GRI 103-2 The management approach and its components

The Tubos Reunidos Group is aware of the potential consequences that its activities might have on the Environment and has taken on the public commitment to:

- Comply with the legal requirements and other commitments acquired with stakeholders.
- Continuous improvement of environmental performance

In this regard, a number of plants of the Tubos Reunidos Group have certification of its Environmental Management System in accordance with standard ISO 14001.
The main production plants of the Tubos Reunidos Group (TRI, PT) have the corresponding Integrated Environmental Authorisations containing all the obligations regarding the environment that the plants have to comply with.

### GRI 103-3 Evaluation of the management approach

Several plants of the Tubos Reunidos Group have yearly environmental objectives to continuously improve their environmental conduct. New environmental requirements are being introduced for the supplier selection process and the evolution of the plants' environmental performance is monitored by means of set environmental indicators.

On the other hand, internal and external communication channels have been established to gather suggestions, opinions and complaints from stakeholders and effectively manage them.

## Management of the supply chain

### GRI 103-1 Explanation of the material topic and its boundary disclosure

Our strategy is geared towards improving competitiveness via the supply chain, making use of local and international suppliers in order to improve our supply situation by demanding price levels, quality and delivery deadlines that enable us to obtain a competitive edge in our sector.

By doing so, we can develop initiatives for relations with our suppliers throughout the entire supply chain in order to improve our products with the added benefit of improving our manufacturing processes.

Companies that want to become suppliers of Tubos Reunidos have to undergo an approval process depending on how critical the activity they carry out might be.

Besides, our Code of Ethics and Conduct establishes the foundations of the values and principles that govern contractual relationships with our suppliers.

Finally, we would like to point out that Tubos Reunidos complies with the criteria of European and international management policies responsible for the supply chain of minerals from area of conflict or high risk.

### GRI 103-2 The management approach and its components

The main activities of the organisational areas of the Group responsible for supply activities include planning needs, purchase management, development of all the quality processes and seeking synergies between all the companies that make up the Group in a fair and impartial manner.

On the other hand, ensuring adequate amounts of raw materials in competitive terms (scrap, ferro-alloys, etc.) is an essential factor for making a steel making company like Tubos Reunidos a going concern. Therefore, it has been established that a key element for achieving a competitive edge is our access to critical raw materials and our capacity to ensure the raw materials ethically and sustainably.

In this regard, critical supplies with potential supply problems or restrictions have been identified and the corresponding measures to mitigate these risks have been adopted.

### GRI 103-3 Evaluation of the management approach

The Tubos Reunidos Group has incorporated indicators to assess the effectiveness of its management model as part of its objective-oriented management model framework:

.- i. competitive improvements arising from management of the supply chain (price conditions and product quality, etc.,);

.- ii. Aspects relating to quality in the management of the supply chain;

## GRI 102-48 Restatements of information

This report is the first sustainability report prepared by the Tubos Reunidos Group and, therefore, no significant changes are required that would oblige a re-expression of the additional information of it.

## GRI 102-49 Changes in reporting

No significant changes have been made to the list of material topics and boundary disclosure of it.

## GRI 102-50 Reporting period

The Annual Report reflects the economic, company and environmental performance of the Tubos Reunidos Group in the financial year 2017.

## GRI 102-51 Date of most recent report

This report is the first sustainability report to be prepared by the Tubos Reunidos Group. To date the information of the report was collected and analysed in the annual management report of each company that formed part of the group.

## GRI 102-52 Reporting cycle

The preparation cycle of this report is annual.

## GRI 102-53 Contact point for questions regarding the report

| **Company Headquarters** | **Corporate Offices** |
|---|---|
| Barrio de Sagarribai, 2 | Máximo Aguirre, 18, 8º |
| 01470 Amurrio (Álava) | 48011 Bilbao, Vizcaya (Spain) |
| Tel.: (+34) 945 89 71 00 | Tel: (+34) 945 89 71 00 |
| Fax: (+34) 945 89 71/54/55/56 | Fax: (+34) 94 441 74 67 |

http://www.tubosreunidos.com/es/localizacion.php

## GRI 102-54 Claims of reporting in accordance with the GRI Standards

This report was prepared in accordance with the exhaustive option of the GRI Standards

## GRI 102-56 External assurance

This report has not been subjected to external assurance.

## GRI 201-1 Direct economic value generated and distributed

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Direct economic value generated** | **313,883** | **195,966** | **280,247** |
| | | | |
| **Economic value distributed** | **359,480** | **281,685** | **329,831** |
| Operational costs | 215,771 | 154,132 | 200,163 |
| Salaries and benefits of employees | 93,884 | 86,096 | 84,123 |
| Payments to providers of capital – Dividends | - | - | 2,009 |
| Financial expenditure | 13,793 | 7,294 | 6,360 |
| Payments to Public Administrations | 35,899 | 34,021 | 36,941 |
| Investments in the Community | 133 | 142 | 235 |
| | | | |
| **Retained economic value** | **(45,597)** | **(85,719)** | **(49,584)** |

The above table is presented in thousands of euros. For the purposes of comparison, the distribution and automotive segments, sold in the financial years 2017 and 2016, respectively, are not presented in the table above as the Group operations in the financial years 2015 and 2016 are regarded as discontinued operations.

The direct general economic value is considered to be the total turnover, the financial income and the revenue obtained from sale of premises.

Operational costs are regarded as the costs of materials, product components and acquired services.

Payments to Public Administrations are regarded as payments to Public Administrations in Spain without VAT.

Investments in the Community are regarded as expenses of associations or sponsorship.

## GRI 201-2 Financial implications and other risks and opportunities due to climate change

A major part of the sales of the Tubos Reunidos Group are directed towards the oil sector and may therefore be affected by potential regulatory changes and/or changes in environmental policies. No other significant risks resulting from climate change have been identified although there are concepts such as energy savings and improved energy efficiency to reduce greenhouse gas emissions in operational terms as part of the group's objectives.

## GRI 201-3 Defined benefit plan obligations and other retirement plans

Some Group companies implement a number of retirement plans, which are all based on defined contributions and which are financed by payments to external voluntary social welfare entities (EPSV). Users of such plans are the workers of Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.A. (Sociedad Unipersonal).

A defined contribution plan is a pension plan in which fixed contributions are paid to an external entity in accordance with a contract, without the Group having any legal or implicit obligation to make additional contribution if the fund does not possess sufficient assets to pay all the employees the benefits relating to the services provided in the current financial year and in previous ones.
The entity does not assume any risk in the contribution capitalisation period and does not guarantee a minimum interest to the members.
The contributions are recognised as employee benefits when they are returned.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Contributions and provisions for pensions (in thousands of euros) | 1,764 | 1,860 | 1,718 |
| Number of voluntary members | 1,450 | 1,426 | 1,493 |

## GRI 201-4 Financial assistance received from government

The activities of the Tubos Reunidos Group are characterised by a high investment demand for equipment and R+D+i projects to enable us to develop products with greater added value. These investments generate the deductions provided for in the tax regulations applicable to each company.

At the same time the Companies of the Tubos Reunidos Group receive subsidies to develop the R+D+i from official bodies of the "Programa Gaitek", "Hazitek", or "Basque Industry", Finally, official bodies such as the Centre for Industrial and Technological Development (CDTI) grant subsidised loans to develop these R+D+i projects.

The sums received for these items in Spain are listed below (expressed in euros);

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Subsidies for R+D+i projects | 893 | 555 | 305 |
| Other subsidies | 84 | 64 | 328 |
| Subsidised loans for R+D+i projects | - | 566 | 1,161 |
| Investment loans | 10,000 | - | 15,000 |

The shares of the parent company of the Tubos Reunidos Group are not nominative and are accepted for official quotation on the Stock Exchanges of Bilbao and Madrid. In the significant holdings reported to the supervisory body, the CNMV, there is no report issued by any government or official entity.

## GRI 202-1 Ratios of standard entry level wage by gender compared to local minimum wage

The Tubos Reunidos Group sets the salaries of all the categories under the agreements mentioned in GRI 102-41.

## GRI 202-2 Proportion of senior management hired from the local community

Given the markedly international nature of Tubos Reunidos, we understand the local community as referring to the country where we operate and it should be noted that in such communities the group has production operations that to us represent significant operations.

Thus, out of the 12 senior executives that make up the Management Committee of the Tubos Reunidos Group, 100% are members of the local community, born or with legal rights to permanently reside in the geographical market of the operation.

## GRI 203-1 Infrastructure investments and services supported

The Tubos Reunidos Group did not make any investment in infrastructure or services supported in the financial year 2017.

## GRI 203-2 Significant indirect economic impacts

The industrial activity of the Tubos Reunidos Group has a very significant indirect economic impact on the local and regional economies where industrial plants are located, creating direct local work, working with local and regional institutions to promote sustainable social and economic development. What is more, this industrial activity generate a large number of indirect jobs in auxiliary sectors, catering services, security, health, transport, specialist labour, etc. is also one of the major tax contributors for certain areas.

The company is in constant collaboration with Vocational Training Centres, providing their students with the opportunity to work as interns in the company to enable them to obtain their qualifications. It also grants a number of grants for professional studies via local authorities for young people with economic disadvantages, thereby enabling the community to develop.

Furthermore, we collaborate with universities in the area, taking on student interns under collaboration agreements.

The significant negative environmental impacts (potential and real) of the Tubos Reunidos Group are shown in content 308-2 of this report and are related to the use of resources, effects on soil, disturbance, waste generation, spills and emissions into the atmosphere.

Said impacts are minimised via management models established in plants with the aim of complying with legal and other requirements established by the competent authority or agreed voluntarily with stakeholders.

Finally, the Tubos Reunidos Group has several environmental responsibility insurances policies to cover any possible environmental damage that might be caused as a result of our activities.

## GRI 204-1 Proportion of spending on local suppliers

A large part of the spending of the Tubos Reunidos Group on goods and services in Spain goes to national companies (>86% of the total value of the purchases to over 1500 suppliers).

Most of the other purchases are made with companies of the EU (>11%), while the small remaining percentage (<3%) is spend on companies outside Europe.

AS regard its operations in facilities in the USA (RDT ROTARY DRILLING TOOLS USA), apart from the purchase of raw materials (seamless tubes) from the header production plants of the Group based in Spain, 100% of the purchases of other supplies and services are made from suppliers based in the USA.”

## GRI 205-1 Operations assessed for risks related to corruption

The firm commitment of the Group in the fight against corruption and the establishment of mechanisms to ensure the existence of a culture that prevents illegal conduct can be seen in the Group's Code of Ethical Conduct and in the Criminal Liability Prevention Plan, both approved by the Board of Directors.

Both measures and their implementation can be seen as a firm message of opposition to corruption and fraud in all shapes and forms.

The Independent Control Body carries out regular and ongoing assessment of risks in order to identify situations, factors or activities that might be exposed to illegal acts or situations of corruption and fraud. The Compliance Unit has developed a dynamic analysis and updating process for the risks mentioned in the paragraph above.

## GRI 205-2 Communication and training about anti-corruption policies and procedures

Continuous awareness raising and training of staff about this issue is important. The compliance system of Tubos Reunidos, which sets out to is promote a culture of company ethics and transparency and prevent illegal and fraudulent conduct, includes the preparation and implementation of effective training programmes, to enable professionals of the Group to receive training about the duties imposed by the *Code of Ethical Conduct* and the *Criminal Liability Prevention Plan for Legal Entities*, both of which must be complied with after being approved by the Board of Directors.

## GRI 205-3 Confirmed incidents of corruption and actions taken

The Independent Control Body has not record and has not been informed via established ethical channels of any court rulings related to cases of corruption during the period of the report. No incidents or complaints have been recorded via the channels established for this purpose that might have led to the cancellation of orders or contracts with Group clients or suppliers.

## GRI 206-1 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices

In 2017, the Tubos Reunidos Group managed the issue of anti-competitive behaviour responsibly, always complying with the provisions of national and international legislation on the matter and avoided monopoly practices and anti-competitive conduct.

Our *Code of Ethical Conduct,* clause 4.1. *"Fair Competition", the* Group has prohibited any action that involves the use of unfair competition and it undertakes to ensure compliance with the anti-monopoly laws applicable in the countries where it operates. Tubos Reunidos therefore operates in the market by entering into free competition with other companies of the same sector, which encourages economic efficiency and sustainable growth and it maintains a firm commitment to fair competition in markets, favouring transparency and the rules of the free market. Tubos Reunidos has not used any advertising that is false or that denigrates its competitors or third parties.

Tubos Reunidos strictly prohibits price-fixing, bid rigging, the creation of market or production monopolies, the imposition of geographical quotas and the assignment of clients, suppliers, geographical areas or product lines.

The Group did not engage in monopolistic practices or establish obstacles to entry into its sector in 2017, nor did it impede competition in any way. Tubos Reunidos did not abuse its position in the market, nor did it participate in any cartels or form part of any anti-competitive merger.

No actions have been taken by Tubos Reunidos or its employees that could lead to collusion with possible competitors, with the aim of limiting the effects of competition in the market. As regards the Criminal Liability of the Company, the Independent Control Body has not received any denouncement for infringements of the anti-trust laws by employees or executives of Tubos Reunidos.

However, when applying current legislation in practical terms, the very complexity of the law may sometimes lead to interpretations that are not shared by other market agents or by the regulatory authority itself, generating situations such as the one described below, which in turn leads to the intervention of the competent administrative bodies.

As regards practices that are monopolistic or that go against free competition, in 2017 legal action by the trading companies Tubos Reunidos S.A., Tubos Reunidos Industrial, S.L.U. and Productos Tubulares, S.A. was required, consisting of responding to a demand for information and the presentation of allegations in the course of administrative proceedings opened by the Secretary of Industry and Commerce of Mexico. Said proceedings were initiated as the issue concerned steel tubing sold in Mexico that is being investigated for possibly coming from one of four countries (Korea, Spain, India and the Ukraine) that may supposedly damage Mexican production with anti-dumping practices.

The requested information was duly submitted and, on 3 August 2017, the Mexican authorities reached a preliminary decision concerning the investigation, establishing that there had been a margin of discrimination of prices and supposed damage to national production and, therefore, proposed to establish preliminary compensatory quotas. The outcome of the legal action consisting of the presentation of allegations against said preliminary decision is that said decision is not final. The legal action taken was necessary to clarify the situation and to rectify said judgement. The matter is in the process of being resolved and, therefore, there is no expectation of punitive action or a risk of significant interruption of the activities of Tubos Reunidos in the market.

No cases relating to monopolistic practices or against free competition have been recorded in the other companies of the Tubos Reunidos Group.

## GRI 301-1 Materials used by weight or volume

**Non-renewable materials used:**

These include raw materials, the materials necessary for the process that do not form part of the final product and packaging materials.

The information has been obtained by direct measurement via dispatch notes and/or internal management reports

| Data in Tons | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 6,585 | 5,051 | 5,924 |
| (TRI) | 55,131 | 46,518 | 58,593 |
| TRPT | - | -[5] | - |
| RDT | 30,973 | - | - |
| ACECSA | 5,340 | 5,310 | 5,416 |
| **TOTAL** | **98,029** | **56,879** | **69,933** |

**Renewable materials used:**

These include raw materials, the materials necessary for the process that do not form part of the final product and packaging materials.

The information has been obtained by direct measurement via dispatch notes and/or internal management reports

| Data in Tons | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 73,581 | 58,456 | 61,137 |
| TRI | 257,961 | 200,165 | 232,243 |
| TRPT | 9 | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **331,551** | **258,621** | **293,380** |

## GRI 301-2 Recycled input materials used

Calculated as a percentage between the total volume of recycled input materials divided between the total volumes of recycled input materials and referenced in the section above (Content 301-1).

[5] Generally speaking, when “-“appears in the value tables, it is because the data for the period is unavailable.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 92 | 92 | 91 |
| TRI | 82 | 81 | 80 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |

## GRI 301-3 Reclaimed products and their packaging materials

Calculated as the percentage between the total volume of reclaimed packaging materials divided between the total volume of products sold.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 0.12 | 0.17 | 0.13 |
| TRI | 0.14 | 0.12 | 0.10 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |

## GRI 302-1 Energy consumption within the organization

**Total consumption of non-renewable fuels within the organisation.**

Includes consumption from electricity, natural gas and diesel fuel used internally (generator sets and internal transport)

| (In MWh) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 161,385 | 127,005 | 144,118 |
| TRI | 415,726 | 358,924 | 394,848 |
| TRPT | 2,061 | - | - |
| RDT | 24,862 | - | - |
| ACECSA | 4,279 | 5,854 | 4,669 |
| **TOTAL** | **608,313** | **491,783** | **543,635** |

**Total consumption of renewable fuels within the organisation.**

Includes the consumption from renewable sources in the percentages indicated in the supplier's electricity invoice.

| (In MWh) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 29,341 | 17,233 | 27,076 |
| TRI | 86,947 | 50,414 | 54,602 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 524 | 634 | 551 |
| **TOTAL** | **116,812** | **68,281** | **82,229** |

**Total energy consumed**

Includes consumption of electricity, heating, cooling and steam.

| Electricity (MWh) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 73,445 | 61,475 | 67,724 |
| TRI | 218,461 | 180,695 | 209,203 |
| TRPT | 1,587 | - | - |
| RDT | 14 | - | - |
| ACECSA | 1,316 | 1,594 | 1,185 |
| **TOTAL** | **294,823** | **243,764** | **278,312** |

| Heating (MWh) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 275 | 294 | 306 |
| TRI | 3,044 | 3,013 | 2,828 |
| TRPT | 474 | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **3,793** | **3,307** | **3,134** |

| Cooling (MWh) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | 4,679 | 3,165 | 4,909 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **4,679** | **3,165** | **4,909** |

| Steam (MWh) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | 5,769 | 4,938 | 15,788 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **5,769** | **4,938** | **15,788** |

**Total energy sold**

Includes sale of electricity, heating, cooling and steam. There is no record of Tubos Reunidos selling electricity, heating, cooling or steam.

**Total energy consumption within the organisation**

Includes the sum total of non-renewable fuel consumed, renewable fuel consume, electricity, heating, cooling and steam bought for consumption, self-generated electricity, heating, cooling and steam and not consumed from which any electricity, heating, cooling and steam that is sold is deducted.

| (In MWh) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 190,726 | 144,239 | 171,194 |
| TRI | 502,674 | 409,337 | 449,450 |
| TRPT | 4,122 | - | - |
| RDT | 24,875 | - | - |
| ACECSA | 5,595 | 7,448 | 6,054 |
| **TOTAL** | **727,992** | **561,024** | **626,699** |

## GRI 302-2 Energy consumption outside of the organization.

The most relevant energy consumption outside Tubos Reunidos relates to suppliers that send their products and/or services, or transport our products and with the energy consumption from the daily transport of our employees from their homes to the workplace. At present no specific data about said consumption is available.

## GRI 302-3 Energy intensity

The characteristics of the group companies mean that only PT and TRI are included (the only ones with electric-smelting furnaces) as they are the only ones with comparable production data.

The ratio includes the total energy consumption (renewable + non-renewable) between the tons of steel produced.

| Energy intensity (KWh/t steel)[6] | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 2,959 | 2,872 | 838 |
| TRI | 2,175 | 2,274 | 2,202 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |

## GRI 302-4 Reduction of energy consumption

Different actions to reduce energy consumption were taken throughout 2017 but no detailed data about them is available. Several energy audits were also conducted in the main factories of TUBOS REUNIDOS and the improvements they detected are gradually being introduced.

## GRI 302-5 Reductions in energy requirements of products and services

The Tubos Reunidos Group is continuously implementing energy efficiency measures in all its plants in order to reduce energy consumption and therefore reduce the energy requirements of its products and services, but these improvements cannot currently be quantified.

## GRI 303-1 Water withdrawal by source

The following tables show the total volumes of water withdrawn broken down into the following sources: surface waters, ground waters, rainwater collected and stored, wastewater from another organisation and water from the municipal grid or other public or private water services.

| Surface water withdrawn (m3) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | 96,323 | 152,630 | 90,453 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **96,323** | **152,630** | **90,453** |

[6] Excludes the electrical consumption specified in content 302-2

| Ground water withdrawn (m3) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | 22,915 | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **22,915** | **-** | **-** |

The water extracted in RDT was accounted for using the meters in the extraction wells

| Rain water collected and stored (m3) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Municipal grid water (m3) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 125,681 | 115,545 | 123,531 |
| TRI | 62,507 | 74,282 | 55,096 |
| TRPT | 243 | - | - |
| RDT | - | - | - |
| ACECSA | 9,342 | 14,133 | 7,775 |
| **TOTAL** | **197,773** | **203,960** | **186,402** |

## GRI 303-2 Water sources significantly affected by withdrawal of water

Tubos Reunidos, S.A. does not present any water source significantly affected by water withdrawal is it does not exceed the average value of five percent of the average annual volume of the water mass and the extractions of water masses have been classified by professionals as not being especially sensitive, or figuring in the list of the Ramsar Convention and do not have great value for biodiversity or for local communities of 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 (Code: ES052MAR002710) (catalogued as a heavily modified river according to the specifications for water courses of the "PLAN HIDROLOGICO 2015-2021W prepared by UR Agentzia) and RDT extracts ground waters.

However, the total volume of water withdrawn by the Tubos Reunidos Group is:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Total water withdrawn (m3) | 317,011 | 356,590 | 276,855 |

## GRI 303-3 Water recycled and reused

Both TRI and PT have a water recirculation system in a closed circuit in order to minimise the use of this natural resource, in which only the water evaporated during recirculation has to be provided.

## GRI 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas

None of the factories of the TUBOS REUNIDOS GROUP are located within or adjacent to protected areas or areas of high biodiversity value.

Cartography analysed:

- Habitats of community interest
- Green corridors
- Distribution of threatened species of flora and fauna
- Red Natura 2000 (LIC, ZEC,ZEPA
- Protected spaces, Biotopo, RAMSAR, special trees, PN)
- Areas of natural interest (Areas of Natural Interest - DOT-, Catalogue of spaces CAPV, LIG)

## GRI 304-2 Significant impacts of activities, products and services on biodiversity

a. **<u>The nature of significant direct and indirect impacts on biodiversity:</u>**

No notable events have been recorded due to the fact that:

i. No building has taken place outside the existing lots.

ii. Discharges only take place in the areas where there is no connection to the collector of the local water treatment plant. ELVs are available that are never exceeded.

iii. No invasive species, plague or pathogen has been included in the production process or in imports/exports. Plant health standards are always complied with.

iv. Species that might undergo a drop in population or change in distribution have not been recorded.

v. Habitats that might be transformed have not been recorded

vi. The subsistence or commercial use of a resource is not affected

**b. <u>Direct and indirect positive and negative impacts:</u>**

No notable events have been recorded due to the fact that:

i. Species that might undergo a drop in population or change in distribution have not been recorded.

ii. The ELVs of the discharges of industrial/process waters have not been exceeded. Discharges of rain waters have been excluded in accordance with GRI-306-1

iii. It is not possible to determine the duration of the impact due diagnoses being carried out via quarterly regulatory analyses.

iv. The magnitude of the impact, the receiving environment (artificialized) and the parameters exceeded.

## GRI 304-3 Habitats protected or restored

There are not protected areas or habitats where restoration has been completed are that are being actively protected on the property or nearby.

When the river Nervión passes through Amurrio, it flow alongside the factory that the TUBOS REUNIDOS GROUP has in this area (TRI). The river is subject to considerable human pressure along most of its banks and so the only areas of the river to be protected since 2003 are from its headwaters to Délika, as a Site of Community Interest (SCI) Armako-Gibijo-Arrastaria and the Special Protection Area (SPA) of Sierra Salvada.

## GRI 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations

None of the centres of the TUBOS REUNIDOS GROUP are located in or near distribution areas of threatened species (IUCN Red List, national conservation lists, management programmes, etc.)

## GRI 305-1 Direct (Scope 1) GHG emissions

Includes direct, emitted and verified emissions of $CO_2$.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 23,233 | 18,030 | 21,904 |
| TRI | 58,710 | 47,320 | 55,640 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **81,943** | **65,350** | **77,544** |

## GRI 305-2 Energy indirect (Scope 2) GHG emissions

Annual electricity consumption * FE (CNMC (National Commission on Financial Markets and Competition)) As per supply company in $kgCO_2/kWh$).

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 25,065 | 21,001 | 25,822 |
| TRI | 101,584 | 84,023 | 97,279 |
| TRPT | - | - | - |
| RDT | 5 | - | - |
| ACECSA | 447 | 541 | 470 |
| **TOTAL** | **127,101** | **105,565** | **123,571** |

## GRI 305-3 Other indirect (Scope 3) GHG emissions

The Tubos Reunidos Group has no record of biogenic emission of $CO_2$ caused by the combustion of biodegradation of biomass produced in the value chain.

## GRI 305-4 GHG emissions intensity

Correspond to the sum of the direct emissions (scope 1) + indirect emissions (scope 2) + other indirect emissions (scope 3) with regard to the specific parameter of the organisation (t laminated, t produced, etc.).

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 0.75 | 0.78 | 0.89 |
| TRI | 0.69 | 0.73 | 0.69 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 0.12 | 0.12 | 0.10 |

## GRI 305-5 Reduction of GHG emissions

The Tubos Reunidos Group does not have information about the reduction of GHG emissions achieved as a result of the energy saving initiatives carried out in recent years and shown in content 302-4.

## GRI 305-6 Emissions of ozone-depleting substances (ODS)

The Tubos Reunidos Group has not record of having produced, imported or exported any substance that depletes the ozone layer (ODS)

## GRI 305-7 Nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions

The data corresponds to mass emissions (Kg) obtained from the Annual Environmental Declaration (AED).

| NOx (kg) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT[7] | 58,303 | 42,880 | 15,093 |
| TRI | 90,228 | 77,276 | 137,408 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 1,540 | 2,170 | 1,680 |
| **TOTAL** | **150,071** | **122,264** | **154,182** |

| SOx (kg) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT[8] | 5,635 | 4,437 | 4,445 |
| TRI | 38,607 | 51,187 | 94,635 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 6 | 8 | 6 |
| **TOTAL** | **44,248** | **55,632** | **99,086** |

| COP (kg) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT[9] | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

[7] Data estimated using the 2016 emissions and the 2017 operating hours

[8] Data estimated using the 2016 emissions and the 2017 operating hours

[9] Data estimated using the 2016 emissions and the 2017 operating hours

| COV (kg) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT[10] | 2,876 | 4,366 | 7,677 |
| TRI | 22,952 | 17,591 | 9,878 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 46 | 63 | 5 |
| **TOTAL** | **25,873** | **22,020** | **17,605** |

| HAP (kg) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT[11] | 2.59 | 2.04 | 1.9 |
| TRI | 8.26 | 6.52 | 7.42 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **10.85** | **8.56** | **9.32** |

| PM (kg) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT[12] | 7,090 | 5,418 | 6,022 |
| TRI | 49,348 | 36,594 | 51,910 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **56,438** | **42,012** | **57,932** |

| Others (g) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT[13] | 0.000838 | 0.0006606 | 0.135979 |
| TRI | 0.02009 | 0.0215600 | 0.01523 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **0.020928** | **0.0222206** | **0.151209** |

[10] Data estimated using the 2016 emissions and the 2017 operating hours

[11] Data estimated using the 2016 emissions and the 2017 operating hours

[12] Data estimated using the 2016 emissions and the 2017 operating hours

[13] Data estimated using the 2016 emissions and the 2017 operating hours

## GRI 306-1 Water discharge by quality and destination

Effluent discharges (industrial waters, sanitary sewage and rain water) comply with the ELVs contained in the IEAs of the entity, pursuant to Law 16/2002, of 1 July, on the integrated prevention and control of contamination and Law 5/2013, of 11 June, which modifies it. The rain water does not come into contact with possible points of contamination and is therefore clean water.

The discharges have the corresponding sedimentation and purification systems used to comply with the established ELVs.

| Discharges of water to water course (m3) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 6,410 | 6,766 | 4,806 |
| TRI | 75,148 | 75,148 | 75,148 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **81,558** | **81,914** | **79,954** |

| Discharges of water to collector (m3) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 16,899 | 17,654 | 20,650 |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 4,335 | 14,133 | 7,775 |
| **TOTAL** | **21,234** | **31,787** | **28,425** |

| Total discharges of water (m3) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 23,309 | 24,420 | 25,456 |
| TRI[14] | 75,148 | 75,148 | 75,148 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 4,335 | 14,133 | 7,735 |
| **TOTAL** | **102,792** | **113,701** | **108,379** |

## GRI 306-2 Waste by type and disposal method

Waste is managed in accordance with the provisions of the Integrated Environmental Authorisations with the following priorities;

- first, regeneration-reuse
- second, revaluation,

[14] Maximum authorised by the Administration

- finally, destruction whenever it can be justified that revaluation is not technically, economically or environmentally feasible.

The waste management or reclamation company (authorised in accordance with corresponding EWL) includes the final destination of the waste in their offer (R or D).

Weight of Hazardous Waste

| Hazardous waste reused (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Hazardous waste recycling (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 19.444 | 18.168 | 36.228 |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **19.444** | **18.168** | **36.228** |

| Hazardous waste composting (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Hazardous waste energy recovery (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 957.5 | 767.0 | 870.1 |
| TRI | 3,759.9 | 3,265.1 | 4,113.0 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | 373.4 | 597.0 | 243.3 |
| **TOTAL** | **5,090.8** | **4,629.1** | **5,226.4** |

| Hazardous waste incineration (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 3.706 | 0.006 | 0.0075 |
| TRI | 0.02 | 0.06 | 0.02 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **3.726** | **0.066** | **0.0275** |

| Hazardous waste injected into deep wells (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Hazardous waste dumping (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 614.6 | 601.9 | 697.5 |
| TRI | 1,565.5 | 3,458.7 | 1,604.4 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **2,180.1** | **4,060.6** | **2,301.9** |

| Hazardous waste other management (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

Weight of Non-Hazardous Waste

| Non-hazardous waste reused (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 323.78 | 350.3 | 1,199.3 |
| TRI | 4,004.1 | 4,687.5 | 2,398.8 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **4,327.9** | **5,037.8** | **3,598.1** |

| Non-hazardous waste recycling (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 16,601.5 | 13,346.5 | 16,724.3 |
| TRI | 38,536.6 | 40,674.4 | 46,006.9 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **55,138.1** | **54,021.0** | **62,731.2** |

| Non-hazardous waste composting (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | 9.0 | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **9.0** | **-** | **-** |

| Non-hazardous waste energy recovery (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Non-hazardous waste incineration (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 42.9 | 46.8 | 18.0 |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **42.9** | **46.8** | **18.0** |

| Non-hazardous waste injected into deep wells (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Non-hazardous waste dumping (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 1,869.1 | 1,545.5 | 3,274.3 |
| TRI | 9,572.5 | 6,587.3 | 4,781.6 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **11,441.6** | **8,132.8** | **8,055.9** |

| Non-hazardous waste stored in situ (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | 0.7 | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **0.7** | **-** | **-** |

| Non-hazardous waste other management (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 49,925.3 | 9,443 | 11,436.1 |
| TRI | - | - | - |
| TRPT | 0.7 | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **49,925.3** | **9,443** | **11,436.1** |

## GRI 306-3 Significant spills

The significant spills that took place in the companies of the Tubos Reunidos Group in chronological order were as follows:

<u>2017</u>

Company affected: TRPT
Area affected: Waste management zone
Incident: Spill of 40 litres of cutting fluid (8%) into drains when one of the 200 litre tanks used for storage was broken during transport to the waste storage facility. Both the local and regional administration were immediately informed of the incident and although it was regarded as slight the 200 litre containers were replaced by palletised 1000 litre IBCs to minimise the risk of breakage during transport.

<u>2016</u>

Company affected: TRI
Area affected: Pickling Zone.
Incident: Fire in the pickling zone with intervention by the fire brigade and spills of water used with pickling products.

| Facility | Product | Nature | Amount |
|---|---|---|---|
| New HCl tank | HCl (33 %) | Corrosive | 15,000 litres |
| Pickling tank no. 1 | 50 % Water 50 % HCl (33 %) | Corrosive | 15,000 litres |
| Pickling tank no. 2 | 50 % Water 50 % HCl (33 %) | Corrosive | 15,000 litres |
| Washing tank no. 4 | Water | -- | 15,000 litres |
| Washing tank no. 5 | Water | -- | 15,000 litres |
| Washing tank no. 6 | Water | -- | 15,000 litres |
| Washing tank no. 9 | Water | -- | 15,000 litres |
| Neutralising tank no. 7 | Neutralising salts | Irritant | 15,000 litres |
| Fire extinguisher water (information from fire service) | -- | -- | 27,000 litres |
| | **TOTAL** | | **147,000 litres** |

The appropriate measures were taken to monitor any possible impact (On 1 February technicians from URA took water samples upstream and downstream from the spill).

## GRI 306-4 Transport of hazardous waste

| Hazardous waste transported (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 1,595.2 | 1,387 | 1,604 |
| TRI | 5,325.4 | 6,724 | 5,718 |
| TRPT | 5.2 | - | - |
| RDT | 1.5 | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **6,927.3** | **8,111** | **7,322** |

| Hazardous waste imported (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Hazardous waste exported (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

| Hazardous waste treated (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 1,595.3 | 1,387 | 1,604 |
| TRI | 5,325.4 | 6,724 | 5,718 |
| TRPT | 5.2 | - | - |
| RDT | 1.5 | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **6,927.3** | **8,111** | **7,322** |

| Hazardous waste transported to other countries (t) | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

## GRI 306-5 Water bodies affected by water discharges and/or run-off

The Tubos Reunidos Group has no record of its discharges matching the criteria established for GRI 306-5 (Section. 2.5) and it therefore has no record indicating that:

- Any of the centres of the TUBOS REUNIDOS GROUP are located inside or near protected areas.
- Any of the centres of the TUBOS REUNIDOS GROUP are located in or near distribution areas of threatened species (IUCN Red List, national conservation lists, management programmes, etc.)

## GRI 307-1 Non-compliance with environmental laws and regulations

The Tubos Reunidos Industrial plant received a monetary penalty of €2,500 for non-compliance with the emission limit values established by the Integrated Environmental Authority for discharges to public water courses of sanitary water and run-offs from the scrap yard.

## GRI 308-1 New suppliers that were screened using environmental criteria

All suppliers that might have an environmental impact are screened in line with environmental criteria before registering them in the list of approved suppliers.
Those that have a potentially significant environmental impact are informed of the requirements to be complied with in order to eliminate/minimise said impacts.

## GRI 308-2 Negative environmental impacts in the supply chain and actions taken

The information on this section can be summarised with the following data:

| Number of suppliers assessed using environmental criteria[15] | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 62 | 75 | 67 |
| TRI | 120 | 116 | 105 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **182** | **191** | **172** |

| Number of negative impacts[16] | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 15 | 12 | 24 |
| TRI | 20 | 19 | 20 |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |
| **TOTAL** | **35** | **31** | **44** |

[15] suppliers registered with environmental criteria
[16] suppliers registered during the financial year under consideration

| Suppliers with negative impacts and agreed improvements (%)[17] | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | 100% | 100% | 100% |
| TRI | 100% | 100% | 100% |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |

| Suppliers with negative impacts deregistered (%)[18] | 2017 | 2016 | 2015 |
|---|---|---|---|
| PT | - | - | - |
| TRI | - | - | - |
| TRPT | - | - | - |
| RDT | - | - | - |
| ACECSA | - | - | - |

The negative environmental impacts (potential and real) identified in the supply chain 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 substances, contamination of soil with inorganic substances, poisoning by direct or indirect contact, impact on the landscape, contamination or surface and/or ground waters, impact on flora and fauna

- **Disturbance**: Visual impact: stress, distraction, mood swings, reduction of productivity, noise: Disturbs animals' feeding patterns and breeding, interferes in communication, stress, affects sleep, etc.

- **Waste**: Impacts on the soil from direct contact from contaminated waste, impacts on water due to leaching of hazardous substances that waste may

[17] suppliers to whom specific environmental criteria were applied and that were registered during the financial year under consideration
[18] suppliers registered during the financial year under consideration for having negative environmental impacts

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.

## GRI 401-1 New employee hires and employee turnover & GRI 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees & GRI 401-3 Parental leave

A total of 75 persons (64 men and 11 women) were incorporated into the workforce of Tubos Reunidos in 2017, who are distributed over the following age ranges. 19 are under 30, 52 are between 30 and 50 and 4 are over 50.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Under 30 years | 19 | 1 | 12 |
| Between 30 and 50 years | 52 | 16 | 9 |
| Under 50 years | 4 | 3 | 1 |
| Men | 64 | 18 | 21 |
| Women | 11 | 2 | 1 |

Tubos Reunidos is a company that takes care of its employees by ensuring their safety and stability, providing them with a series of social benefits that always match the collective bargaining agreements of each company and its regulations.

The workers of Tubos Reunidos have life insurance, healthcare coverage, disability insurance, parental leave and provisions for retirement and, in the case of TR SA, TRI PT there are external voluntary social welfare entities for employees. There are also subsidies for lunch expenses (lunch cheques at TRI), payment of lunches at PT for the day shift.

We consider an additional benefit to be the hand-over contracts used for workers over 61 years of age, which permits the creation of stable, indefinite jobs and the retirement of our older professionals.

To encourage a balance between work and personal life there are a number of measures that go beyond those established by legislation:

- Flexi-time for workers on day shifts at the Trapaga factory (possibility of working day from 07:00 to 15:00 whenever working conditions permit and with authorisation from the supervisor). There is a 15 minutes entrance and exit allowance for split shift workers. Article 8 Agreement.
- Flexi-time at the Amurrio factory, for entrance and exit of day-shift workers, whenever working conditions permit and with authorisation from the supervisor. Article 19 Agreement.
- Extension by one week of parental leave (17 weeks). Article 14 Trapaga agreement.
- Work-life balance plan added to Amurrio agreement as part of the Equality Plan containing the following sections:

- o i. Extension of nursing leave to a minimum of one hour a day of reduction in working day, which can be extended in the event of a multiple adoption or birth; and specification as an individual right of the option of accumulating said leave to use it at the end of the maternity leave.
- o ii. Specification as an individual right of the option to accumulate nursing leave to use at the end of the maternity leave.
- o iii The rights legally established for flexi-time and working conditions for women who are victims of gender violence are guaranteed and facilitated, thus contributing to a greater level of protection.

- Assistance for studies (offspring or employees) for the workers of Trápaga and Amurrio.

A total of 33 reductions of working were applied to balance working and family life in 2017:

- TRI 29 workers
- Acecsa 2 workers
- PT 1 worker
- TRSA 1 worker

Employees that have had rights to parental leave by gender:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Men | 69 | 59 | 61 |
| Women | 10 | 8 | 8 |
| **Total** | **79** | **67** | **69** |

Employees that have returned after parental leave by gender:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Men | 59 | 59 | 61 |
| Women | 10 | 8 | 8 |

Employees that have returned and continue in the company after 12 months:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Men | 70 | 59 | 61 |
| Women | 10 | 7 | 8 |

Absolute Turnover Rate: (total terminations in group / total permanent workers group x 100):

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Under 30 years | 4% | 0% | 9% |
| Between 30 and 50 years | 1% | 1% | 1% |
| Under 50 years | 10% | 14% | 15% |
| Men | 4% | 5% | 6% |
| Women | 4% | 3% | 4% |

## GRI 402-1 Minimum notice periods regarding operational changes

As a general rule, Tubos Reunidos gives a minimum of 2 weeks notice to employees and their representatives before applying any significant operational changes that might have a major effect on them.

The collective bargaining agreements specify the periods for prior notification and the provisions for consultation and negotiation.

## GRI 403-1 Workers representation in formal joint management–worker health and safety committees

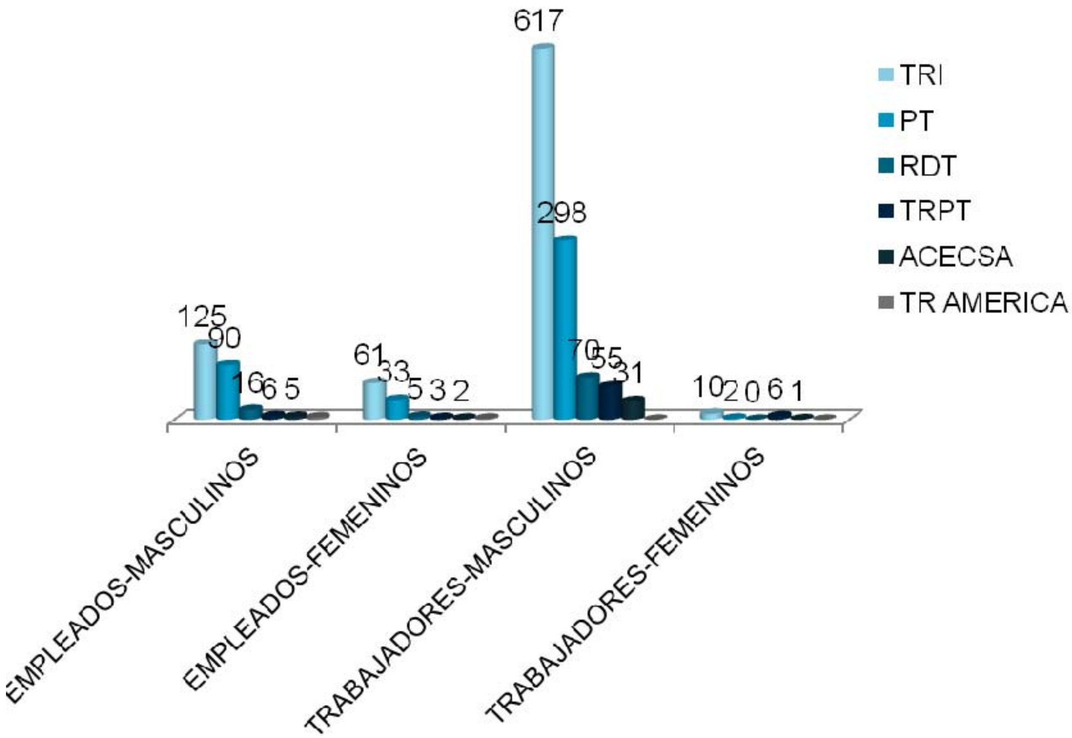
The companies belonging to the Tubos Reunidos Group are consolidated within this standard:

- TUBOS REUNIDOS INDUSTRIAL S.L.U.
- PRODUCTOS TUBULARES
- ACECSA
- TR AMERICA
- RDT
- TRPT

The following features of the Tubos Reunidos Group were taken for this standard:

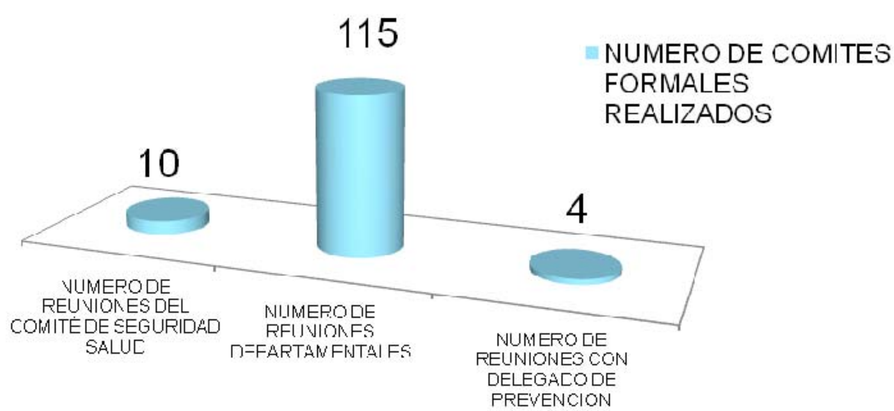
| | Employees | | Workers | | |
|---|---|---|---|---|---|
| | Men | Women | Men | Women | **TOTAL** |
| Number of workers in the company | 246 | 109 | 1022 | 19 | **1396** |
| Number of representatives (prevention officers) | | | | | **17** |

Distributed as follows:




Detailed information is provided below about the formal health and safety committees that help to control, collect comments and give advice about occupational health and safety programmes.

Number of formal committees



Number of workers represented

The number of representatives is the total number of workers present at meetings (prevention officers, or in their absence, trade union representatives). The total number of prevention officers (or in their absence, trade union representatives) present at meetings x (number of staff in the company/no. of prevention officers required by law) can be analysed by the number of workers represented in each of the following forums:

| | number of workers represented |
|---|---|
| Health and safety committee | 1,236 |
| Departmental meetings | 748.2 |
| Other unidentified meetings | 39 |

% Workers represented

If this number of represented workers is converted into a percentage, this gives the following percentage table:

| | % workers represented |
|---|---|
| Health and safety committee | 100% |
| Departmental meetings | 70% |
| Other unidentified meetings | 100% |
| **TOTAL** | **90%** |

## GRI 403-2 Types of injury and rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities

This content is used to enable Tubos Reunidos to identify the system used to monitor and report health and safety incidents and performance and to ensure that said system covers all significant operations and locations.

| | EMPLOYEES* | | WORKERS** | | |
|---|---|---|---|---|---|
| | Men | Women | Men | Women | TOTAL |
| No. Accidents WITH sick leave | 3 | - | 56 | 1 | 61 |
| No. Accidents WITHOUT sick leave | 3 | - | 147 | - | 150 |
| Total No. Accidents | 6 | - | 203 | 1 | 211 |
| No. of occupational diseases declared | - | - | 5 | - | 5 |
| No. of Days Lost | 83 | 21 | 2,041 | 38 | 2,177 |
| No. of Hours worked | 338,894 | 143,034 | 1,601,577 | 29,775 | 2,113,679 |
| Incident rate of occupational disease (IROP) | - | - | 2.08 | - | 3.67 |
| Frequency Index (FI) or Frequency Rate (FR) | 19.66 | - | 61.24 | 46.43 | 49.17 |
| Severity Index (SI) or Rate of days lost (RDL) | 0.52 | 0.24 | 2.14 | 0.77 | 1.67 |
| Work Absenteeism Rate (WAR) | 0.22% | 0.11% | 1.40% | 0.04% | 1.30% |
| Death from occupational accident or disease | 0 | 0 | 0 | 0 | - |
| System for recording and presenting information used for accidents | DELTA*** | | | | |

FI = FR = ACC. SICK LEAVE $*10^6$/HOURS WORKED

SI = RDL = DAYS LOST$*10^3$/HOURS WORKED

IP = ACC. TOTALS$*10^6$/HOURS WORKED

IROP = No. OCC. DIS.$*10^3$/NUMBER OF WORKERS

Following this pre-set criterion:

| | |
|---|---|
| *DAYS LOST | Days lost from day when worker cannot restart work. |
| *EMPLOYEES | Number of people belonging to the company not directly related by working activity |
| **WORKERS | Number of people belonging to the company directly related by working activity |
| ***DELTA | This company follows the code of practice on registration and notification of WA and OD in accordance with state bodies |

## GRI 403-3 Workers with high incidence or high risk of diseases related to their occupation

This content is especially important for controlling high risks or a high incidence of contagious diseases and for those focusing on professionals with a high incidence of certain diseases. Preventing serious diseases contributes to good health, job satisfaction and low staff turnover.

The following jobs had a high incidence in 2017:

| Post* | Company** | Workers*** |
|---|---|---|
| 102030134: relief fitter | TRI | 25 |
| 102030135: relief boilermaker welder | TRI | 17 |
| 102030206: relief electrician | TRI | 15 |
| dotute22: winch operator | PT | 52 |
| domt22: tubing fitter | PT | 19 |
| dotuni08: stainless steel interior grinder operator | PT | 31 |

Following this pre-set criterion:

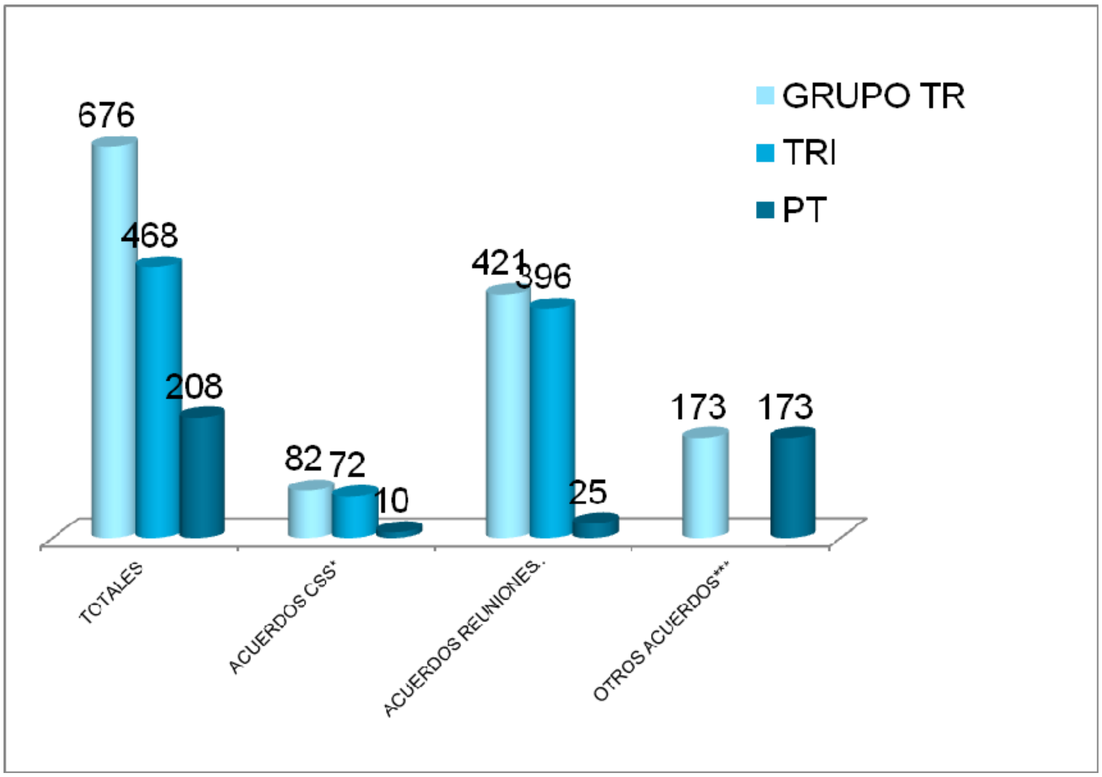
| | |
|---|---|
| *Post | Controlled posts or work stations with high incidence |
| **Company | Company belonging to group |
| ***Workers | Number of persons belonging to the company who are exposed to the job with high incidence. |

Campaigns are being prepared for this collective that shall be planned in the new preventive activities programme for the following year.

## GRI 403-4 Health and safety topics covered in formal agreements with trade unions

Formal agreements can encourage acceptance of responsibilities by both sides and the development of a positive health and safety culture within the Tubos Reunidos Group. This content shows up to what point workers are actively involved in the formal worker-company agreements that determine the provisions of health and safety management.

| | Number of cases | % number of cases/activity |
|---|---|---|
| CSS agreements | 82 | 12% |
| Departmental meeting agreements | 421 | 62% |
| Other agreements | 173 | 26% |
| **Total** | **676** | **100%** |




The agreements of the Tubos Reunidos Group are the basis for establishing preventive criteria by consolidating occupational health and safety management.

## GRI 404-1 Average hours of training per year per employee & GRI 404-2 Programmes for upgrading employee skills and transition assistance programmes

The data about staff training presented in this report refers to those companies of the Tubos Reunidos Group with major operations in Spain.

Tubos Reunidos is committed to training its professionals throughout their professional career since having qualified employees boosts the company's human capital, excellence and satisfaction.

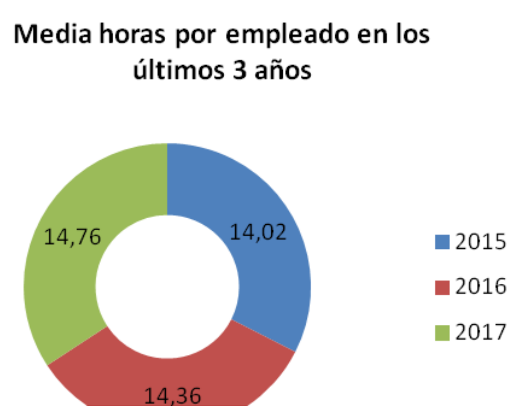
Training commences with a welcome plan that enables and facilitates integration and adaptation to the company of new employees by offering information about the company's culture and values. The ultimate objective of this plan is to accompany the worker in his/her integration process.

A training programme is also prepared and planned every year to improve the skills workers need to perform effectively in their work at Tubos Reunidos.

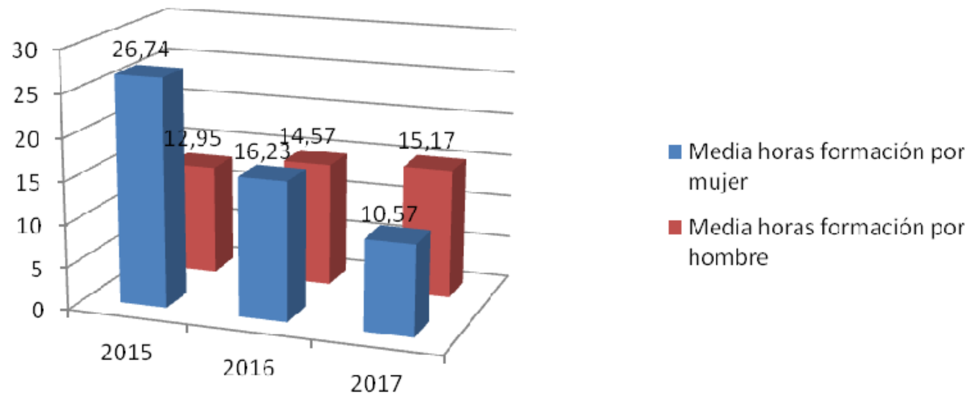
The programmes and courses that are planned in the company are both internal and externally based and internal to make use of our professionals' know how.

The major investment in terms of money and time on occupational health and safety training is a noteworthy feature of the company.

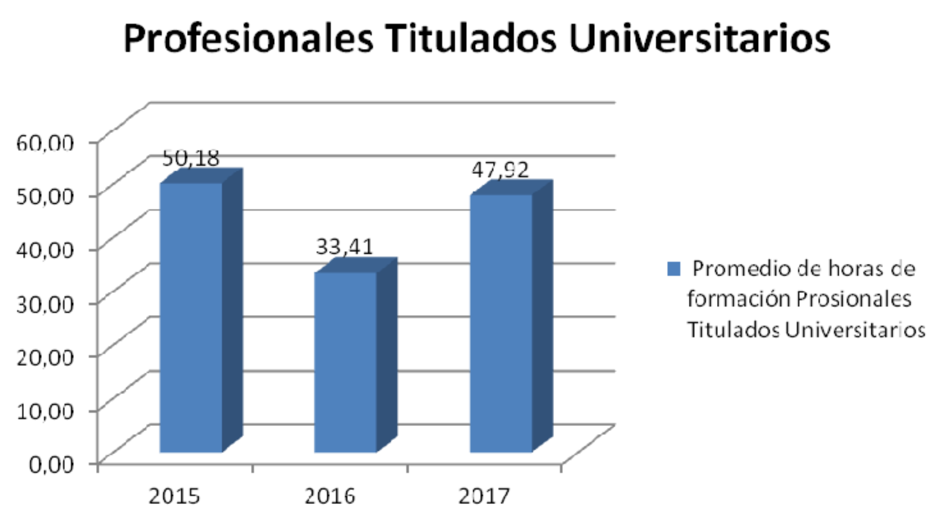
An average of 14.76 hours training per employee was invested in 2017, which is slightly more than in previous years.




When looking at the data from the last three years, it can be seen that in Tubos Reunidos there is no difference in the average number of training hours invested by men and women, with the exception of 2015.




The following distribution by professional categories and years can be seen in the amount of training hours invested in the company.





To date and given the mainly indefinite nature of the contractual relations established with company workers and the average time that they stay there, the company has not seen the need to provide transition assistance programmes to facilitate management of the end of professional careers due to retirement.

## GRI 404-3 Percentage of employees receiving regular performance and career development reviews

Tubos Reunidos has not data concerning employees' performance and career development reviews.

## GRI 405-1 Diversity of governance bodies and employees[19]

MANAGEMENT COMMITTEE OF TUBOS REUNIDOS GROUP

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Men | 8 | 5 | 5 |
| Women | 2 | - | - |
| **TOTAL** | **10** | **5** | **5** |
| | 2017 | 2016 | 2015 |
| Under 30 years | - | - | - |
| Between 30 and 50 years | 6 | 3 | 3 |
| Over 50 years | 4 | 2 | 2 |
| **TOTAL** | **10** | **5** | **5** |

WORK CENTRE: ACECSA, PT and TRI

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| | Men | Women | Men | Women | Men | Women |
| Group 1 | 64 | 31 | 67 | 31 | 73 | 28 |
| Group 2 | 60 | 12 | 62 | 11 | 66 | 11 |
| Group 3 | 12 | 4 | 12 | 4 | 16 | 8 |
| Group 4 | 72 | - | 68 | - | 70 | - |
| Group 5 | 68 | 37 | 70 | 37 | 69 | 37 |
| Group 6 | 4 | - | 4 | - | 3 | 1 |
| Group 7 | 57 | - | - | - | - | - |
| Group 8 | 87 | 2 | 145 | 1 | 148 | 1 |
| Group 9 | 711 | 14 | 685 | 12 | 673 | 11 |
| **TOTAL** | **1,135** | **96** | **1,113** | **96** | **1,118** | **97** |

[19] The permanent workforces of the companies have been used to calculate the distribution of persons in standard 405-1 with the exception of TR America, which includes temporary staff

| | 2017 | | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Under 30 years | Between 30 and 50 years | Over 50 years | Under 30 years | Between 30 and 50 years | Over 50 years | Under 30 years | Between 30 and 50 years | Over 50 years |
| Group 1 | 0 | 67 | 28 | 0 | 72 | 26 | 0 | 71 | 30 |
| Group 2 | 2 | 59 | 11 | 2 | 58 | 13 | 4 | 57 | 16 |
| Group 3 | 0 | 8 | 8 | 0 | 6 | 10 | 0 | 6 | 18 |
| Group 4 | 1 | 48 | 23 | 1 | 44 | 23 | 1 | 44 | 25 |
| Group 5 | 2 | 84 | 19 | 6 | 77 | 24 | 8 | 67 | 31 |
| Group 6 | 0 | 3 | 1 | 0 | 3 | 1 | 0 | 3 | 1 |
| Group 7 | 1 | 47 | 9 | 0 | 0 | 0 | 0 | 0 | 0 |
| Group 8 | 8 | 70 | 11 | 9 | 116 | 21 | 17 | 112 | 20 |
| Group 9 | 48 | 578 | 99 | 55 | 549 | 93 | 64 | 525 | 95 |
| **TOTAL** | **62** | **964** | **209** | **73** | **925** | **211** | **94** | **885** | **236** |

Most of the workforce of the Tubos Reunidos Group work in operations regarded as direct labour linked to production processes in the steel-making and metal sector. All the staff selection processes are carried out openly by the company and emphasis is placed on the fact that the candidates' gender is not a conditioning factor or limitation, but rather a factor that can favour a candidate in situations where there is a draw between potential employees.

## GRI 405-2 Ratio of basic salary and remuneration of women to men

All the companies of Tubos Reunidos are subject to a collective bargaining agreement that establishes remuneration by job category (post/function/task), independently of the employee's gender or any other characteristic, which makes discrimination in salary terms an impractical proposition.

Alongside the above, some companies of the Tubos Reunidos Group also have agreements with trade union representatives for equality programmes that promote non-discriminatory criteria.

## GRI 406-1 Incidents of discrimination and corrective actions taken & GRI 408-1 Operations and suppliers at significant risk for incidents of child labour & GRI 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour & GRI 411-1 Incidents of violations involving rights of indigenous peoples

In 2015, 2016 and 2017, no complaints about any type of discrimination, forced labour or child labour were received via the channels established for this purpose.

Tubos Reunidos is defined as a company that is committed to human rights, ethics, integrity and good governance.

In line with these principles, child labour and forced or compulsory work is totally prohibited in the company. The company also requires that suppliers and collaborators cooperate with said principles by ensuring compliance with the provisions of the International Labour Organisation (ILO).

Tubos Reunidos is committed to the creation and maintenance of quality work that preserves the wealth of our surroundings and that respects the community and cultural differences of the persons that form a part of them.

Likewise, it is an objective of the TUBOS REUNIDOS GROUP to generate a working environment where everyone who forms part of the company can develop and give the best of themselves. In such a context, there is no room for any type of discrimination of any kind: race, gender, religion, political opinion, national extraction or social origins, etc.

All job applicants are assessed using this focus and on a basis of equal opportunities.

Tubos Reunidos is especially committed to gender equality and to this end has equality programmes or commitments to prepare them in the companies that form part of the group.

## GRI 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk

No operations and suppliers in which the right to freedom of association or collective bargaining may be at risk have been detected. The whistle-blower channel of Tubos Reunidos is the means by which such groups can denounce a situation that puts these rights at risk.

All the companies of Tubos Reunidos in Spain are covered by the collective bargaining agreements that correspond to them, either within the company or by provincial agreements and all of them have company committees formed after the due election processes have taken place.

In the reference period, no disciplinary resolution or judicial or administrative decision was made that showed any infringement of the right to freedom of association and collective bargaining in the companies of the Tubos Reunidos Group.

RDT, the Group company located in Houston, Texas (USA) also operates within the current legislative framework and there are no disputes or judicial proceedings for breaches of American labour legislation.

## GRI 410-1 Security personnel trained in human rights policies or procedures

At present, the functions of surveillance and security of the manufacturing facilities in Spain are covered by companies subcontracted by Tubos Reunidos. Tubos Reunidos asks the company every year or at other periods for certification demonstrating that the staff of the company are adequately trained and have passed the professional theoretical/practical training modules associated with understanding of the competence attributed to them by law and that are legally required at all times.

## GRI 412-1 Operations that have been subject to human rights reviews or impact assessments

As explained in the sub-sections of this section (406, 408, 409 and 413), Tubos Reunidos is committed to human rights and so all its activities and relations with the surroundings and the environment defend said rights.

## GRI 412-2 Employee training on human rights policies or procedures

Tubos Reunidos has provided a considerable number of training courses on the Code of Conduct in general and human rights, especially since 2016, when several courses were given on Legal Compliance. In addition, the entire workforce can access our website to go to our *Code of Ethical Conduct*.

## GRI 412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening

There were no significant investment agreements or contracts in 2017 that put the protection of human rights at risk or that affected the reputation of Tubos Reunidos.

## GRI 413-1 Operations with local community engagement, impact assessments and development programmes

Tubos Reunidos is not aware of the existence of any formal complaints or claims deriving from its activities in local communities during 2017.

It also echoes the needs of the local communities where it is located and by doing so participates by contributing in different ways to activities that provide intangible wealth and development to the community. Some examples of such activities are contributions towards training young people in the area, collaboration with disabled persons' associations and support for the cultural development of the community.

## GRI 413-2 Operations with significant actual and potential negative impacts on local communities

Alongside the strictest possible compliance with occupational health and safety and environmental legislation, the Tubos Reunidos Group undertakes to contribute towards conserving natural resources and spaces that are of ecological, scenic, scientific or cultural interest. To this end, it establishes the best practices and promotes knowledge and use of it amongst its employees.

It is necessary to underline the commitment to the objectives entered into in the voluntary agreement signed by the companies of the steel sector and the Department of Town and Country Planning of the region and the Department of the Environment of the Basque Government.

Given the importance of preventing contamination and the impacts it might have on local communities, the companies that form Tubos Reunidos:

- Have 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, along with due oversight of any environmental factors.

- Establish plans and resources to reduce environmental risks from their activities by assuming full environmental responsibility in terms of prevention, avoidance and repair in the event of adverse effects on the environment

- Apply the best technology available to their processes and activities.

## GRI 414-1 New suppliers that were screened using social criteria

The contracting policy of Tubos Reunidos requires the selection of suppliers that comply with the applicable legal requirements for activities carried out by our organisation in terms of quality, the environment, occupational health and safety, ensuring at all times that damage to and deterioration of workers' health are reduced and prevented when carrying out their work.
It also requires complete legality with regard to quality, the environment, health and safety at work and requests all the legal documentation that it considers relevant for such aspects.
Suppliers that carry out their activities in the facilities of TUBOS REUNIDOS should adapt to its company policies in every respect.
At present, the Tubos Reunidos Group has more than one 1000 authorised suppliers and it should be pointed out that any company that wishes to access our facilities to

carry out its activities must be authorised to do so, as must the suppliers of goods that are incorporated to the product as this is considered critical for meeting the quality standards required by their clients.

## GRI 414-2 Negative social impacts in the supply chain and actions taken

Tubos Reunidos follows a public and transparent ethical code that ensures the ethical integrity of the supply chain at all levels. Any violation of said code in the supply chain can be reported to the whistle-blower channel by anyone, regardless of whether they form part of the company or supply chain or not.

## GRI 415-1 Political contributions

The Tubos Reunidos Group has a firm commitment to complying with the law and the institutional respect that should mark any relations with public authorities and their representatives.

The Code of Conduct of the Tubos Reunidos Group prohibits bribes to public authorities and government employees or any payment of any kind, presents, gifts or favours that do not form part of market uses or that, due to their value, their characteristics or circumstances, might reasonably alter the progress of commercial, administrative or professional relations in which its companies play a part.

In this regard, the Tubos Reunidos Group did not make any political contributions in 2017 or in previous years.

## GRI 416-1 Assessment of the health and safety impacts of product and service categories

The Tubos Reunidos Group is concerned not only about the health and safety of its own workers and those of its subcontractors, but also about that of its clients and their direct or indirect employees.

The nature of the products means that, after assessing the impacts they might have on the health and safety of our clients, we may conclude that they are not hazardous as long as they are correctly and reasonably used and handled.

However, 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)), etc.

## GRI 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services

The Tubos Reunidos Group has no record of any incident or case of non-compliance of this type in 2017 or in previous years.

## GRI 417-1 Requirements for product and service information and labelling

The Tubos Reunidos Group gives special importance to the accuracy and truthfulness of the information that is marked or labelled on products that are manufactured in line with what is indicated on the corresponding quality certificates and applies the same criterion to its product marketing and commercial activities.

Given the nature of the products that it supplies to the market, its marking and labelling are carried out in accordance with international standards according to the type of product being manufactured and as per the instructions received and agreed with our clients and legislation currently in force in the countries of origin and destination of it.

The main objective of the marking is to correctly identify the product and to correctly trace it with the attached documentation (quality certificates, delivery notes, invoices, etc.), while the possible environmental impact of it is not generally applied.

## GRI 417-2 Incidents of non-compliance concerning product and service information and labelling

The TUBOS REUNIDOS GROUP has not received any fine, penalty or warning for non-compliance of regulations concerning product and service information and labelling in the assessment period of this report.

## GRI 417-3 Incidents of non-compliance concerning marketing communications

The TUBOS REUNIDOS GROUP has not received any fine, penalty or warning for non-compliance of regulations or voluntary codes of conduct concerning marketing communications or tools used to promote its products.

## GRI 418-1 Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data

Tubos Reunidos and the business units that form a part of same treat all information about its clients (of a strictly contractual content and even more so if the data is personal) under the strictest confidentiality, or rather, no personal data or commercial condition or any other detail specifically agreed with same is communicated to third parties without the client's prior explicit consent with the exception of those situations in which we are obliged by law or administrative regulation to do otherwise.

No claims were lodged with the Group concerning loss of privacy or data belonging to our clients in 2017.

## GRI 419-1 Non-compliance with laws and regulations in the social and economic area

According to the company's *Code of Ethical Conduct* and its *Criminal Liability Prevention Plan*, Tubos Reunidos 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. In this regard, the ethical standards of the Group establish that its 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 by the Group in its contractual relations with third parties, along with the uses and best practices of the countries where they carry our their activities.

No significant fines or sanctions were applied in 2017. The Group shall always respect and submit to the judicial or administrative decisions that are given, but it reserves the right to appeal against said decisions or resolutions when it considers that they are not legally valid.

The management focus of the Tubos Reunidos Group on this matter is described in further detail in section GRI 102.17: ADVISORY MECHANISMS AND ETHICAL CONCERNS of this report.

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, has formulated the annual accounts and the management report of **TUBOS REUNIDOS, S.A. AND SUBSIDIARIES** for financial year 2017, all of which is detailed and identified as indicated below:

**Consolidated annual accounts:** (Transcribed on sheets of stamped paper, numbers OM5801243 to OM5801355)

- Table of contents
- Consolidated balance sheet
- Consolidated profit and loss account
- Consolidated comprehensive income statement
- Consolidated statement of changes in net equity
- Consolidated cash flow statement
- Consolidated annual report

**Consolidated management report** (Transcribed on sheets of stamped paper, numbers OM5801356 to OM5801363)

**Corporate Governance Report (CGR)** (Transcribed on sheets of stamped paper, numbers OM5801074 to OM5801122)

**Sustainability report** (Transcribed on sheets of stamped paper, numbers OM5800905 to OM5800999)

In addition, the Directors of the Company attest that, to their knowledge, the 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 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 Guillermo Ulacia Arnaiz**
(Director - Executive Chairman)

**Mr Emilio Ybarra Aznar**
(Deputy Chairman – Proprietary Director)

**Mr Alfonso Barandiarán Olleros**
(Proprietary Director)

**Mr Francisco José Esteve Romero**
(Proprietary Director)

**Mr Jorge Gabiola Mendieta**
(Secretary - Independent Director)

**Ms Ana Muñoz Beraza**
(Independent Director)

**Juan María Román Goncalves**
(Independent Director)

**Ms Leticia Zorrilla de Lequerica Puig**
(Proprietary Director)

**QMC Directorships, S.L.**
(On his behalf Mr Jacobo Llanza Figueroa)
(Proprietary Director)

Amurrio (Álava), at 27 February 2018

TUBOS REUNIDOS, S.A.

JORGE GABIOLA MENDIETA, Abogado, Secretario del Consejo de Administración de TUBOS REUNIDOS, S.A., domiciliada en Amurrio (Alava), Bº Sagarribay s/n, e inscrita en el Registro Mercantil de Alava, al Tomo 881, folio 22 vuelto, hoja VI 6719 y provista de C.I.F. número A-48011555.

**CERTIFICO:**

Que las Cuentas Anuales consolidadas de Tubos Reunidos y sus sociedades participadas correspondientes al ejercicio cerrado el 31 de Diciembre de 2017 que han sido traducidas al inglés para su presentación en el Informe Anual de 2017, coinciden en todos sus términos con las Cuentas Anuales en español que fueron formuladas por el Consejo de Administración de Tubos Reunidos en su reunión del día veintisiete de febrero de 2018.

Firmo la presente certificación en Amurrio (Alava), a 16 de Abril de dos mil dieciocho.

Fdo. Jorge Gabiola Mendieta