Tubos Reunidos, S.A.
and subsidiary companies

Auditors' Report,
Consolidated Financial Statements as at 31 December 2011
and Management Report for financial year 2011

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL

STATEMENTS

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

We have audited the consolidated financial statements of Tubos Reunidos, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the consolidated annual report for the annual period ended on that date. As indicated in Note 2.1 of the accompanying annual report, the management of the Parent company is responsible for the preparation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for financial year 2011 present fairly, in all material respects, the consolidated equity and the consolidated financial position of Tubos Reunidos, S.A. and its subsidiaries as at 31 December 2011, as well as the consolidated results of its operations and its consolidated cash flows for the annual period ended on that date, in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated management report for financial year 2011 contains the explanations that the Directors of Tubos Reunidos, S.A. consider appropriate on the situation of the Group, the evolution of its businesses and on other matters, but it is not an integral part of the consolidated financial statements. We have checked that the accounting information contained in the consolidated management report is consistent with that contained in the 2011 financial statements. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope and does not include a review of any information other than that drawn from the accounting records of Tubos Reunidos, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

José Antonio Simón
Partner – Account Auditor

28 February 2012

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Madrid Companies Register, sheet 87.250-1, folio 75, volume 9.267, book 8.054, section 3.
Registered in the Official Register of Account Auditors with number S0242 – VAT number: B-79 031290

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

Consolidated financial statements and
Consolidated Management Report
For the year ended
on 31 December 2011

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

List of consolidated financial statements

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2011 AND 2010
(In thousands of Euros)

		As at 31 December	
ASSETS	**Note**	**2011**	**2010**
Property, plant and equipment	**6**	301,234	295,195
Other intangible assets	**7**	5,765	3,287
Investment property	**8**	459	471
Non-current financial assets	**9**	13,841	17,993
Deferred tax assets	**22**	25,168	18,107
NON-CURRENT ASSETS		346,467	335,053
Inventories	**11**	110,844	116,174
Customers and other receivables	**12**	93,120	83,556
Other current assets	**-**	-	25
Derivative financial instruments	**10**	-	247
Other current financial assets	**13**	47,739	52,883
Cash and other equivalent liquid resources	**14**	15,951	19,352
CURRENT ASSETS		267,654	272,237
DISPOSAL GROUP ASSETS CLASSIFIED AS HELD FOR SALE	**15**	79,746	78,451
TOTAL ASSETS		**693,867**	**685,741**
LIABILITIES AND NET EQUITY			
Share capital	**16**	17,468	17,468
Issue premium	**16**	387	387
Other reserves	**17**	48,924	49,140
Accumulated earnings	**17**	168,065	142,888
Cumulative exchange difference	**-**	(2,548)	(2,491)
Less: Treasury shares	**16**	(5,512)	(4,454)
Less: Interim dividends	**17**	(2,062)	-
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		224,722	202,938
Minority interests	**18**	13,604	8,934
NET EQUITY		238,326	211,872
DEFERRED INCOME	**19**	5,965	38,249
Borrowings	**21**	144,799	116,433
Deferred tax liabilities	**22**	17,646	17,918
Provisions	**24**	26,742	16,031
Other non-current liabilities	**20**	12,620	16,337
NON-CURRENT LIABILITIES		201,807	166,719
Borrowings	**21**	31,874	64,981
Suppliers and other accounts payable	**20**	119,969	127,659
Liabilities for current tax	**-**	8,364	2,590
Derivative financial instruments	**10**	1,555	37
Other current liabilities	**20**	125	76
Provisions	**24**	23,512	4,331
CURRENT LIABILITIES		185,399	199,674
DISPOSAL GROUP LIABILITIES HELD FOR SALE	**15**	62,370	69,227
TOTAL LIABILITIES		455,541	473,869
TOTAL LIABILITIES AND NET EQUITY		**693.867**	**685.741**

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENTS CORRESPONDING TO THE FINANCIAL YEARS FINISHING ON 31 DECEMBER 2011 AND 2010
(In thousands of Euros)

	Note	Financial year finishing on 31 December 2011	2010
Net turnover	**25**	458,056	334,345
Other income	**26**	6,854	15,146
Variation in finished product and work in progress inventories	**11**	(4,610)	20,179
Supplies	**11**	(216,611)	(171,477)
Employee benefit expenses	**27**	(98,911)	(85,838)
Fixed asset depreciation	**6/7/8**	(21,210)	(20,254)
Other expenses	**28**	(84,180)	(73,078)
Other gains / (losses) - net	**29**	(212)	(37)
OPERATING INCOME / EXPENSE		39,176	18,986
Financial income	**30**	1,576	963
Financial expenses	**30**	(9,500)	(5,508)
Exchange differences (net)	**30**	374	(1,160)
Result of variations in value of financial instruments at fair value	**30**	-	(127)
Impairment and profit / loss from disposal of financial instruments	**30**	-	(23)
Share of the profit or loss of associates and joint ventures accounted for using the equity method	**9-30**	(25)	(31)
FINANCIAL PROFIT / (LOSS)		(7,575)	(5,886)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		31,601	13,100
Profits before tax	**31**	(6,426)	1,432
PROFIT FOR THE YEAR AFTER TAX FROM CONTINUING OPERATIONS		25,175	14,532
PROFIT (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	**15**	(341)	(27,855)
PROFIT / (LOSS) FOR THE YEAR		24,834	(13,323)
Minority interests	**18**	(399)	(860)
PROFIT / (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**24,435**	**(14,183)**

	Note	Financial year finishing on 31 December 2011	2010
Earnings/Losses per share from continuing operations and discontinued operations attributable to the parent company (expressed in Euros per share)	**32**		
Basic earnings per share:			
- From continuing operations		0.144	0.079
- From discontinued operations		(0.002)	(0.161)
		0.142	(0.082)
Diluted earnings per share:			
- From continuing operations		0.144	0.079
- From discontinued operations		(0.002)	(0.161)
		0.142	(0.082)

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED ON 31 DECEMBER 2011 AND 2010
(In thousands of Euros)

	Financial year finishing on 31 December	
	2011	**2010**
PROFIT FOR THE YEAR	**24,834**	**(13,323)**
OTHER COMPREHENSIVE INCOME		
Foreign currency translation differences	(57)	36
TOTAL COMPREHENSIVE INCOME /(EXPENSE) FOR THE PERIOD, NET OF TAX	**24,777**	**(13,287)**
Attributable to:		
- Shareholders of the Parent Company	24,378	(14,147)
- Minority interests	399	860
	24,777	**(13,287)**

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY CORRESPONDING TO THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2011 AND 2010
(In thousands of Euros)

	Attributable to Company shareholders								
	Share capital (Note 16)	**Treasury shares (Note 16)**	**Issue premium (Note 16)**	**Other reserves (Note 17)**	**Cumulative exchange difference**	**Accumulated earnings (Note 17)**	**Year interim dividend (Note 17)**	**Minority interests (Note 18)**	**Total net equity**
Balance on 31 December 2009	17,468	(2,126)	387	51,208	(2,527)	155,064	-	8,257	227,731
Total comprehensive profit / (loss) for 2010	-	-	-	-	36	(14,183)	-	860	(13,287)
Purchase of treasury shares (share buy-back)	-	(2,328)	-	-	-	-	-	-	(2,328)
Dividends	-	-	-	-	-	-	-	(483)	(483)
Transfers	-	-	-	(2,068)		2,068	-	-	-
Changes in the consolidation perimeter	-	-	-	-	-	(61)	-	300	239
Balance on 31 December 2010	17,468	(4,454)	387	49,140	(2,491)	142,888	-	8,934	211,872
Total comprehensive profit / (loss) for 2011	-	-	-	-	(57)	24,435	-	399	24,777
Purchase of treasury shares (share buy-back)	-	(1,058)	-	-	-	-	-	-	(1,058)
Dividends	-	-	-	-	-	-	(2,062)	(200)	(2,262)
Changes in the consolidation perimeter	-	-	-	(216)	-	742	-	4,471	4,997
Balance on 31 December 2011	17,468	(5,512)	387	48,924	(2,548)	168,065	(2,062)	13,604	238,326

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CORRESPONDING TO THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2011 AND 2010
(In thousands of Euros)

	Financial year finishing on 31 December	
	2011	**2010**
Cash flows from operating activities		
Cash flows from operating activities	32,453	16,309
Interest paid	(9,034)	(5,086)
Taxes paid	-	(2,664)
Net cash generated by operating activities	23,419	8,559
Cash flows from investment activities		
Debt for purchase of fixed assets	(2,574)	(7,060)
Purchase of tangible fixed assets	(35,594)	(29,118)
Income from sale of intangible and fixed assets	4,877	8,619
Income from sale of assets held for sale	1,576	-
Purchase of intangible assets	(1,036)	(3,841)
Net withdrawal of financial assets	9,387	21,462
Purchase of financial assets	-	(15,759)
Capital subsidies received	-	451
Net cash used in investment activities	(23,364)	(25,246)
Cash flows from financing activities		
Purchase and amortisation of treasury shares	(1,058)	(2,328)
Increase for borrowings	39,404	52,385
Disposal of borrowings	(45,481)	(31,072)
Contribution from shareholders	5,000	-
Dividends paid out to Company shareholders	(2,062)	-
Dividends paid out to minority interests	(200)	(483)
Net cash used in financing activities	(4,397)	18,502
Net (decrease)/increase of cash and cash equivalents	**(4,342)**	**1,815**
Cash and current account credit at start of financial year	20,774	18,959
Cash and current account credit at close of financial year	**16,432**	**20,774**

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2011 (In thousands of Euros)

1. General information

Group companies and their activities

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

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

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

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2011 (In thousands of Euros)

On 4 January 2010, with the approval of the Annual General Meeting of Shareholders of Tubos Reunidos, S.A. held on 3 June 2009, the company Tubos Reunidos, S.A. was formally transformed into the holding company for the Group, while the seamless steel tube manufacturing branch of activity was transferred to a new company, called Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal).

Contributing this branch of activity was carried out at the Tubos Reunidos, S.A. carrying amounts. The property and assets contributed are a branch of activity in which all the rights and liabilities pertaining to that unit are computed, consisting of the following assets and liabilities:

Assets	**Amounts**
Non-current assets	165,277
Current assets	143,618
TOTAL ASSETS	**308,895**
Liabilities	
Adjustments due to changes in value and subsidies	32,371
Non-current liabilities	151,583
Current liabilities	73,585
TOTAL LIABILITIES	**257,539**
TOTAL NET ASSETS CONTRIBUTED	**51,356**

The new company was created with share capital of 50,000,000 euros and an issue premium of 1,356,000 euros. Consequently, the operation did not involve any accounting restatement of assets and liabilities and did not have any effect on the capital and equity of Tubos Reunidos, S.A. nor on the Group's financial statements.

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

On 14 July 2011, the Extraordinary and Universal General Meeting of Shareholders of Industria Auxiliar Alavesa, S.A. approved a capital increase for the amount of 600,000 euros through the issue of new shares with the same nominal value as the old shares and an issue premium of 4,027,000 euros. Likewise, on the same date, the Extraordinary and Universal General Meeting of Partners of Engineering Developments for Automotive Industry, S.L. (EDAI) approved a capital increase for the amount of 200,000 euros through the issue of new shares of the same class and series as the previous ones and an issue premium of 173,000 euros. These capital increases have been fully subscribed by the company Gestión de Capital Riesgo del País Vasco SGECR, S.A., acting on behalf of its managed fund called EZTEN Fondo de Capital Riesgo (EZTEN Venture Capital Fund). After these capital increases, the percentage stake that Tubos Reunidos, S.A. holds in each of these companies is 50% (2010: 62.5% stake in each company) (Note 18).

In 2010, the Group companies Engineering Developments for Automotive Industry, S.L. (EDAI) and Aplicaciones Tubulares, S.L. formed an Economic Interest Group called EDAI Technical Unit, A.I.E. to carry out research, development and innovation projects and convert them into processes, products and services, all related with the automotive components sector. Share capital, amounting to 2 million euros, has been totally subscribed by the founding partners, which have disbursed 820,000 and 650,000 euros during financial years 2010 and 2011, respectively.

Moreover, the company called Inaumex, S.A. de C.V., located in Celaya (Mexico) and dedicated to the design, manufacture and sale of components for the automotive industry, was created in 2010. Engineering Developments for Automotive Industry, S.L. (EDAI), owns 100% of the shares of the newly incorporated company and the amount paid out on incorporation amounts to 300,000 euros.

In addition, a disbursement of 118,000 euros was carried out during 2010 for the incorporation of the company Kunshan Inautek Automotive Components Co. Ltd. In financial year 2010 the company had no activity and therefore was not included because it was considering that its effect on consolidation remains insignificant and disbursement is posted under the heading “Shares in group companies” (Note 9.1). An additional disbursement of 901,000 euros was carried out during financial year 2011 and the said company has been included in consolidation as at 31 December 2011.

(In thousands of Euros)

The following is a list of all the Group associate companies consolidated by the equity accounting method as of 31 December 2011 and 2010 (Note 9.2):

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

The annual accounts for financial year 2010 were drawn up by the Board of Directors of the Company on 24 February 2011 and approved by the General Meeting of Shareholders on 5 May 2011. The annual accounts for financial year 2011 were drawn up by the Board of Directors of the Company on 23 February 2012 and are pending approval by the General Meeting of Shareholders. However, the Board understands that they will be approved without alterations.

2. Summary of main accounting principles

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

2.1 Basis of preparation

The consolidated financial statements of the Group, as at 31 December 2011, have been drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted for use in the European Union (IFRS-EU), approved by the Regulations of the European Commission and in force on 31 December 2011.

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

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2011 (In thousands of Euros)

IFRS-EU Standards

a) Mandatory standards, amendments and interpretations for all financial periods starting on or after 1 January 2011

IAS 24, "Related Party Disclosures"

The revised standard clarifies and simplifies the definition of a related party, removing inconsistencies in the previous standard and making it easier to apply. Moreover, it removes the requirement for government-related entities to disclose details of all transactions with government or with other government-related entities. Total or partial early adoption of the revised standard is permitted concerning partial disclosure for government-related entities.

The revised Standard is effective for annual periods beginning on or after 1 January 2011.

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

IAS 32 (Amendment), "Classification of Rights Issues"

This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. Prior to the amendment, these issues were accounted for as derivative liabilities.

This amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010.

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

IFRS 1 (Amendment), "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters of IFRS"

The amendment to IFRS 1 provides entities adopting IFRS for the first time with the same help in the transition as existing IFRS preparers received in the amendment to IFRS 7, Financial Instruments: Disclosures", in force since 1 January 2009. The amendment required enhanced disclosures about fair value measurement and liquidity risk, and presentation of comparative information was not required in the first period it was applied. The amendment is effective for annual periods beginning on or after 1 July 2010.

This amendment does not affect the Group's consolidated financial statements.

IFRIC 14 (Amendment), "Prepayments of a Minimum Funding Requirement"

Certain entities which are subject to minimum funding requirements might opt to make early payment of contributions to cover the requirements. Under IFRIC 14, asset recognition for any surplus that might arise as a result of such payment could be avoided. IFRIC 14 has been amended to require an asset to be recognised in these circumstances.

This amendment to IFRIC 14 is effective for all annual periods beginning on or after 1 January 2011.

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

IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability (debt for equity swaps). The interpretation requires a gain or loss to be recognised when a liability is liquidated by the entity issuing equity instruments. Any difference between the carrying value of the financial liability and the fair value of the equity instruments issued will result in a gain or loss to be recognised in profit or loss. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss and to record the equity instruments issued. The interpretation is applied retroactively from the beginning of the earliest comparative period presented.

For the purposes of its adoption by the European Union, this interpretation will apply no later than the date of commencement of the first period started on or after 30 June 2010.

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

- **2010 Annual Improvements Project.** This was issued by the IASB in May 2010 and at the time of drawing up these consolidated financial statements it has not yet been adopted by the European Union. There are amendments to six standards (IFRS 1, 3 and 7 and IAS 1, 27 and 34) and also to IFRIC 13. The 2010 Annual Improvements Project is not expected to have a significant effect on the Group's consolidated financial statements.

b) Standards, amendments and interpretations that may be adopted early for reporting periods starting on or after 1 January 2011

On the date these consolidated financial statements were signed, the IASB and IFRIC Interpretations Committee had published the standards, amendments and interpretations listed below, whose application is mandatory from the 2012 reporting period, although the Group has not applied early adoption

IFRS 7 (Amendment), "Financial instruments: Disclosures – Transfers of Financial Assets"

The amendment to IFRS 7 incorporates new disclosure requirements concerning risk exposure arising from transfers of financial assets to third parties. It requires the inclusion of information on risk and benefit assessment carried out for transactions that have not qualified for derecognition of financial assets, and the identification of financial liabilities associated with them, and increases the detail of information on transactions that have qualified for derecognition of financial assets: the gain or loss generated in the transaction, the remaining risks and benefits and their initial and future accounting entry, and the estimated fair value of the "continued involvement" recorded on the balance sheet. Among others, this amendment would affect sales transaction for financial assets, factoring agreements, securitisation of financial assets and securities lending agreements.

The amendments to IFRS 7 are mandatory for all annual reporting periods beginning on or after 1 July 2011, although early application is permitted.

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

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

On the date these consolidated financial statements were prepared, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations listed below, which have not yet been adopted by the European Union. If they are adopted by the European Union, they are not expected to have a significant effect on the consolidated financial statements.

IFRS 9, "Financial instruments"

In November 2009, the IASB issued IFRS 9 "Financial Instruments" as the first step in its comprehensive project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 simplifies the accounting for financial assets and introduces new requirements for classifying and measuring them.

This standard will be effective for annual reporting period beginning on or after 1 January 2015, although early application is permitted. The standard is not expected to have any significant effect on the Group's consolidated financial statements.

IFRS 9 (Amendment), "Mandatory effective date and transition disclosures"

The IASB has issued an amendment which moves the mandatory effective date of IFRS 9 "Financial instruments" back and makes it applicable for annual periods beginning on or after 1 January 2015.

In the same way, the IASB has extended its timeline for completion of the remaining phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" (recognition of impairment losses and hedge accounting). This amendment emphasises the importance of applying the same effective date for all phases of the new standard.

It should also be highlighted that the amendment to IFRS 9 introduces changes in the comparative period information and the additional disclosures required after adoption of the new standard, depending on its date of first application.

The Group The group is waiting for the final decision on the transition process to assess the possible effects of its implementation.

IAS 12 (Amendment) "Deferred tax: Recovery of Underlying Assets"

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

Application of this amendment is mandatory for all annual periods beginning on or after 1 January 2012. This amendment has no effect on the Group.

IFRS 1 (Amendment) "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"

Application of this amendment is mandatory for all annual periods beginning on or after 1 July 2011. This amendment has no effect on the Group.

IFRS 10 "Consolidated Financial Statements"

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

For control to exist, it is necessary for two elements to be included: power over an entity and variable returns. Power is defined as the ability to direct relevant activities of the entity that significantly affect its performance. The standard provides extensive guidance for those cases where it is difficult to determine whether control exists or not. The unit concept of the parent company and its subsidiaries for purposes of consolidated financial statements, as well as the consolidation procedures, have not undergone changes as regards the previous IAS 27.

Application of this standard is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted under certain circumstances. From analysis carried out, it is not estimated that this standard will have significant effects for the Group compared to the criteria used in the past.

IFRS 11 "Joint Arrangements"

IFRS 11 provides for accounting of joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form. There are only two types of joint arrangements: joint operations and joint ventures. Accounting for interests in joint ventures under the proportionate consolidation method is no longer permitted.

Application of this standard is mandatory for all annual periods beginning on or after 1 January 2013. Changes in accounting required by IFRS 11 are reflected at the beginning of the earliest period presented in the financial statements. Special transitional provisions are included in IFRS 11 about how to perform the transition from proportionate consolidation to the equity method and vice versa.

Early application is permitted under certain circumstances. It is not estimated that this standard will have significant effects.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 contains the disclosure requirements for entities that report under the new IFRS 10 "Consolidated Financial Statements" and the new IFRS 11 "Joint Arrangements". The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities, whether subsidiaries, associates, joint arrangements (joint operations or joint ventures) or unconsolidated structured entities.

Application of this standard is mandatory for all annual periods beginning on or after 1 January 2013. The Group is analysing the new reporting requirements with a view to fulfilling them when they come into effect..

IAS 27 (Amendment) "Separate Financial Statements"

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

Application of the amended IAS 27 is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted under certain circumstances.

The Group does not prepare separate IFRS parent company financial statements.

IAS 28 (Amendment) "Investments in Associates and Joint Ventures"

IAS 28 has been updated to include references to joint ventures which, under the new IFRS 11 "Joint Arrangements" must be accounted for using the equity method. At the same time, information on aspects relating to voting rights and other specific aspects of these situations has been added.

Application of the amended IAS 28 is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted under certain circumstances. No significant effects are estimated for the Group.

IFRS 13 "Fair Value Measurement"

IFRS 13 is the result of a joint project by the IASB and the US-based FASB (Financial Accounting Standards Board) that explains how to measure items at fair value and whose aim is to improve and extend fair value disclosure requirements. The standard does not establish which items must be measured at fair value and adds no new requirements for fair value measurement.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the "exit price"). It is a measurement based on the expectations of the market rather than those of the entity. A three-tier fair value hierarchy is established, like the hierarch applied under IFRS 7 for fair value measurement, as are new disclosure requirements for the measurement criteria and systems used.

Application of this amendment is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted.

The new standard is to be applied prospectively from the start of the annual period in which it is first applied. In the first year of application, disclosures required by IFRS 13 are only required for periods beginning after the standard is adopted, i.e. disclosures for comparative periods are not required. No significant effects are estimated for the Group.

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

This amendment changes the presentation of the statement of comprehensive income, requiring items included in other comprehensive income to be grouped into two categories, depending on whether or not they are to be transferred to the income statement. The title of IAS 1 has also changed from "Statement of Comprehensive Income" and is now called "Statement of Profit or Loss and Other Comprehensive Income". There is the possibility of using alternative names.

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

This has no significant effects for the Group.

IAS 19 (Amendment) "Employee Benefits"

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

- Actuarial gains and losses (currently called "restatements") are now required to be recognised in other comprehensive income. Restatements recognised in other comprehensive income cannot be transferred to the income statement.

- Vested past service costs must be recognised in the period when the plan is amended, and unvested past service costs can no longer be deferred and recognised over the future vesting period. Curtailments are recognised when an entity is demonstrably committed to a reduction in plan employees. Gains and losses from the reduction will be recognised in the same way as vested past service costs.

- The annual expense of a funded benefit plan shall include expenditure or net income for interest.

- Benefits that require future services are not considered indemnities.

Application of IAS 19 is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted. No significant effects are estimated for the Group.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

IFRIC 20 clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

IFRIC 20 is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.

This has no effect for the Group.

IAS 32 (Amendment) and IFRS 7 (Amendment) "Offsetting of Financial Assets and Financial Liabilities"

In the amendment to IAS 32 "Financial Instruments: Presentation", the Application Guidance of the standard has been amended to clarify its requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment clarifies that the set-off right has to be available at the current time and must not be contingent on a future event. In addition, the right must be legally enforceable in the normal course of business of the counterparts involved in the transaction. Application of the amendment to IAS 32 is mandatory for all periods beginning on or after 1 January 2014 and is to be applied retroactively. Early application is permitted.

The amendment to IFRS 7 requires disclosure of quantitative information both on recognized financial instruments which have been offset on the balance sheet and on financial instruments subject to basic master netting agreements, regardless of whether they have been offset on the balance sheet. Application of the amendment to IFRS 7 is mandatory for all periods beginning on or after 1 January 2013 and is to be applied retroactively.

No significant effects are estimated for the Group.

2.2 Consolidation principles

a. <u>Subsidiaries</u>

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

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

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

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

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

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

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

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

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

c. Disposals of subsidiaries

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

d. Associates

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

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

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

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

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

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

e. Consolidated financial statements

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

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

2.3 Financial reporting by segments

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

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

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

Financial information by segment is shown in Note 5.

2.4 Foreign currency translation

f. Functional and presentation currency

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

g. Transactions and balances

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

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

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

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

h. Group companies

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

(In thousands of Euros)

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

	Estimated useful life
Buildings	30 – 50
Technical facilities and machinery	10 – 18
Other facilities, tooling and furniture	10
Other fixed assets	6 – 15

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

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

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

2.6 Investment property

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

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

2.7 Intangible assets

i. Emission rights

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

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

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

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

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

j. Computer software

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

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

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

k. Research and development costs

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

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

I. <u>Franchises, patents and licences</u>

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

2.8 Losses due to impairment of assets

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

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

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

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

2.10 Financial assets

2.10.1 Classification

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

m. Financial assets at fair value through profit or loss

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

n. Loans and receivables

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

o. Available for sale financial assets

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

2.10.2 Recognition and Measurement

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

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

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

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

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

2.10.3 Losses due to impairment of financial assets

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

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

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group has not designated any derivatives contracted either in financial year 2011 or in 2010 as hedging activity in accordance with the requirements of IFRS 7. Changes in fair value are recognised in the income statement. Trading derivatives are classified as current assets or liabilities.

2.12 Inventories

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

2.13 Accounts receivable

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

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

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

2.16 Trade and other payables

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

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

2.17 Borrowings

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

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

2.18 Current and deferred taxes

a) Corporation tax

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

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

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

b) Deferred tax items

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

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

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

2.19 Employee benefits

a) Pension obligations

Several pension schemes are in operation in some companies in the Group, in all cases with a definite contribution, which are financed by means of payments into external Voluntary Social Welfare Entities (EPSV's). Employees of Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.A. (Sociedad Unipersonal) (1,547 associate members in 2011, and 1,456 associate members in 2010) have voluntarily joined these schemes with the Entity.

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

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

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

b) Retirement premiums

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

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

c) Termination compensation and benefits

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

d) Variable remuneration schemes

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

2.20 Provisions

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

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

(ii) It is more likely than not that an outflow of resources will be required to settle the obligation; and

(iii) The amount can be reliably estimated.

Provisions are not recognised for future operating losses.

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

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

2.21 Revenue recognition

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

a) Sales of goods

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

b) Sales of services

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

c) Interest income

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

d) Dividend income

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

2.22 Leases

Finance leases

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

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

Operating leases

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

2.23 Distribution of dividends

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

2.24 Environment

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

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

3. Financial risk management

3.1 Financial risk factors

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

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

a) Market risk

(i) Currency exchange risk

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

In order to control currency exchange risk arising from future trade transactions, the entities in the Group use both sales transactions in foreign currency (158 million euros in 2011 and 115 million euros in 2010) and purchasing transactions in foreign currency (25 million euros in 2011 and 27 million euros in 2010), thereby compensating for currency exchange fluctuation risk for some of its transactions in foreign currencies. In addition, the companies in the Group use forward contracts negotiated by the Financial Departments of each unit with different financial institutions (Note 10).

If, as at 31 December 2011, the euro had depreciated / appreciated by 5% against the US dollar, with the value of other variables remaining constant, the profit after tax for the reporting period would have been 922,000 euros (805,000 euros in 2010) higher / lower, mainly due to exchange gains / losses by conversion to euros of the accounts receivable of customers denominated in US dollars.

(ii) Loan fund interest rate risk

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

The sensitivity to interest rates included in the financial statements is limited to the direct effects of a change in interest rates on the financial instruments subject to interest recognised on the balance sheet. The sensitivity of the Group income statement to the variation of one percentage point on interest rates (which means an increase of approximately 26% in fiscal year 2011 [50% in fiscal year 2010] on current rates) is relatively low, as it would mean an effect of approximately 14% on the financial expenses for 2011 (19% in 2010).

b) <u>Credit risk</u>

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

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

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

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

In the seamless steel tube segment, 90% of sales were insured by CESCE (90% in 2010), while the rest were covered by customer guarantees through letters of credit (6% - 4% in 2010) and by means of factoring contracts without recourse arranged with financial institutions (1% - 1% in 2010). Payment for the remaining 3% was collected in advance (5% in 2010).

In the distribution segment, coverage by Crédito y Caución accounted for 76% of total sales in the period (2010, 86%).

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

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

c) Liquidity risk

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

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

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

(In thousands of Euros)

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

As at 31 December 2011 and 2010, the liquidity reserve (including the balances of activities classified as held for sale) was as follows (considering balances included under the assets and liabilities held for sale heading):

	2011	2010
Liquidity reserve		
Cash and other liquid resources	16,432	20,774
Other current financial assets	47,739	53,787
Unused credit lines	68,809	72,729
Liquidity reserve	132,980	147,290
Net financial debt		
Bank loans	228,513	235,750
Cash and other liquid resources	(16,432)	(20,774)
Other current financial assets	(47,739)	(53,787)
Net financial debt	164,342	161,189

Taking into account that the loan funds include long-term debts recorded on the balance sheet for the amount of 161 million euros (2010 - 136 million euros) and considering the Group's capability to generate cash flows, liquidity problems are not anticipated.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
As at 31 December 2010				
Bank loans	100,056	71,154	66,792	6,340
Accounts payable	145,288	9,753	7,757	1,175
As at 31 December 2011				
Bank loans	67,820	42,898	127,168	6,232
Accounts payable	129,886	4,092	9,297	1,668

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

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

d) Raw material price fluctuation risk

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

3.2 Accounting for derivative instruments and hedging activities

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

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

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

3.3 Estimation of fair value

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

- Quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1).

- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly for example reference prices) or indirectly (for example price derivatives) (Level 2).

- Inputs for the asset or liability which are not based on observable market data (Unobservable inputs) (Level 3).

(In thousands of Euros)

The table that follows shows the Group's assets and liabilities measured at fair value as of 31 December 2010 and 2011:

Financial year 2010

	Level 1	Level 2	Level 3	Total 31.12.10
ASSETS				
Financial assets at fair value through profit or loss:				
- Derivatives	-	247	-	247
TOTAL ASSETS AT FAIR VALUE	-	247	-	247
LIABILITIES				
Liabilities at fair value through profit or loss:				
- Derivatives	-	37	-	37
TOTAL LIABILITIES AT FAIR VALUE	-	37	-	37

Financial year 2011

	Level 1	Level 2	Level 3	Total 31.12.11
ASSETS				
Financial assets at fair value through profit or loss:				
- Derivatives	-	-	-	-
TOTAL ASSETS AT FAIR VALUE	-	-	-	-
LIABILITIES				
Liabilities at fair value through profit or loss:				
- Derivatives	-	1,555	-	1,555
TOTAL LIABILITIES AT FAIR VALUE	-	1,555	-	1,555

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

(In thousands of Euros)

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

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

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

The table that follows shows the changes in financial instruments classified in Level 3 for the reporting period ending on 31 December 2010. There were no acquisitions of financial instruments classified within level 3 during reporting period 2011:

Financial year 2010	**Equity investments**	**Total**
Balance on 1 January 2010	124	124
Total income/expense in income statement		
Purchases		
Disposals	(124)	(124)
Balance as at 31 December 2010	-	-
Total gains and losses included in the income statement for assets	-	-

3.4 Capital risk control

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

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

(In thousands of Euros)

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

In 2011, the Group strategy, taking into account the balances under the Non-current assets (or disposal groups) held for sale heading, which has not varied since 2006, consisted of maintaining a leverage ratio of about 60%. The leverage ratios as at 31 December 2010 and 2011 were as follows:

	2011	**2010**
Loan funds and other liabilities	423,509	435,621
Less: Cash and other equivalent resources and other current financial assets	(64,170)	(74,562)
Net debt	359,339	361,059
Net equity	238,326	211,872
Total capital	597,665	572,931
Leverage ratio	60%	63%

This improvement of the ratio is caused by the effect of the positive results and therefore of the cash generated as a result of the increase in activity.

4. Accounting estimates and assumptions

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

4.1 Significant accounting estimates and assumptions

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

1. Profits tax

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

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

2. Employee benefits

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

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

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

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

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

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

As a result of the transfer of the distribution segment to non-current assets held for sale and discontinued operations, based on the decision taken by the Board of Directors, in reporting period 2010 the Management estimated a provision for business impairment in the distribution segment. Estimation of the provision, which was compared with external studies, was carried out taking into account the current value of future cash flows of the distribution business, the acceptable financial debt and the sales costs of the disposal group.

As at 31 December 2011, the management has re-estimated that provision, confirming that there were no significant changes in the estimate made during financial year 2010. Part of the established provision for impairment was applied during financial year 2011.

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

4. Valuation of production activities

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

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

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

Nothing has happened during fiscal year 2011 that makes it possible to evaluate that a reversal of the estimated value losses in financial years 2010 and earlier have taken place (Note 6.d).

5. Fair value of derivatives and other financial instruments

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

For financial years 2010 and 2011, the Management of the Company consider that variations higher than 10% (positive or negative) in the estimates drawn up do not significantly affect the amounts recorded in the accounts.

6. Useful lives of property, plant and equipment

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

During financial year 2009 and in accordance with the revised estimate of useful life of property, plant and equipment by certain Group subsidiaries, the useful life of certain facilities and machinery was increased from 12.5 years to 15 years. The gross value of these assets, as at 31 December 2011 and 2010, amounted to approximately 54 million euros. The effect of this change in estimate for financial year 2011 and subsequent years means a decrease in the depreciation expense of approximately 0.96 million euros per year (the effect in 2010 was approximately 0.96 million euros).

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

4.2 Important assumptions when applying accounting policies

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

- Estimation of provision for impairment of Non-current assets held for sale and discontinued operations, Note 15.

- Estimation of the provisions relating to the workforce restructuring scheme is as described in Notes 2.19 and 24.

5. Financial reporting by segments

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

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

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

a) Seamless tubes
b) Distribution
c) Automotive

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

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

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

(In thousands of Euros)

a) Segment information

The segment results for the year ended 31 December 2010 are as follows:

	Seamless tubes	Distribution (*)	Automotive	Other movements (**)	Group
Total gross segment sales	328,773	62,531	38,579	15,902	445,785
Inter-segment sales	(39,207)	(19,185)	(1,573)	(32)	(59,997)
Sales	289,566	43,346	37,006	15,870	385,788
Operating profit	20,691	(8,084)	1,131	(2,719)	11,019
Net financial costs	(5,868)	(1,338)	51	(123)	(7,278)
Loss recognised in the depreciation of the segment for sale	-	(25,832)	-	-	(25,832)
Share of profit of associates	(31)	-	-	-	(31)
Profit before income tax	14,792	(35,254)	1,182	(2,842)	(22,122)
Income tax expense	292	7,307	278	922	8,799
Minority interests	-	-	(814)	(46)	(860)
Profit for the year	15,084	(27,947)	646	(1,966)	(14,183)

(*) Business segment classified as net profit or loss for the year from discontinued operations.

(**) It basically includes the business segment classified as net profit or loss for the year from discontinued operations after the decision taken during financial year 2011 (Note 15).

(In thousands of Euros)

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

	Seamless tubes	Distribution (*)	Automotive	Other movements (**)	Group
Total gross segment sales	461,208	58,912	46,441	11,302	577,863
Inter-segment sales	(45,154)	(8,264)	(7,267)	-	(60,685)
Sales	416,054	50,648	39,174	11,302	517,178
Operating profit	40,890	(15,311)	818	(3,009)	23,388
Net financial costs	(7,022)	(1,828)	(373)	(240)	(9,463)
Application of provision for depreciation of the segment for sale	-	17,139	-	-	17,139
Share of profit of associates	(25)	-	-	-	(25)
Profit before income tax	33,843	-	445	(3,249)	31,039
Income tax expense	(6,159)	-	596	(642)	(6,205)
Minority interests	-	-	(570)	171	(399)
Profit for the year	27,684	-	471	(3,720)	24,435

(*) Business segment classified as net profit or loss for the year from discontinued operations.

(**) It basically includes the business segment classified as net profit or loss for the year from discontinued operations after the decision taken during financial year 2011 (Note 15).

(In thousands of Euros)

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

	2011					2010				
	Seamless tubes	**Distri-bution**	**Auto-motive**	**Other movements (**)**	**Group**	**Seamless tubes**	**Distri-bution**	**Auto-motive**	**Other movements (**)**	**Group**
Depreciation of tangible fixed assets (Note 6)	18,468	1,658	2,146	998	23,270	17,485	969	2,111	1,012	21,577
Amortisation of intangible assets (Note 7)	282	366	133	10	791	210	557	95	24	886
Amortisation of investment property (Note 8)	12	-	-	-	12	185	-	-	-	185
Provision/Reversal (net) of inventory impairment (Note 11)	165	(321)	-	313	157	(347)	-	-	-	(347)
Loss (net) through impairment of trade receivables (Note 12)	323	1,827	48	-	2,198	267	862	-	2,700	3,829

(*) Business segment classified as net profit or loss for the year from discontinued operations.

(**) It basically includes the business segment classified as net profit or loss for the year from discontinued operations after the decision taken during financial year 2011 (Note 15).

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

(In thousands of Euros)

The segment assets and liabilities as at 31 December 2010 and the capital expenditure for the year ended on that date are as follows:

	Seamless tubes	Distribution	Automotive	Others	Consolidation adjustments (*)	Group
Assets	589,896	-	38,547	21,838	(43,173)	607,108
Associates	182	-	-	-	-	182
Assets held for sale	9,855	68,596	-	-	-	78,451
Total assets	599,933	68,596	38,547	21,838	(43,173)	685,741
Liabilities	377,474	-	17,838	13,586	(4,256)	404,642
Liabilities held for sale	-	69,227	-	-	-	69,227
Total liabilities	377,474	69,227	17,838	13,586	(4,256)	473,869
Capital expenditure (Notes 6 and 7)	27,157	1,331	4,342	129	-	32,959

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

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

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

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

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

(In thousands of Euros)

b) Information about geographical areas and customers

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

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

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

	2011	2010
Sales		
Spain	135,037	120,639
Rest of the European Union	150,560	93,815
Rest of the World	231,581	171,334
Total sales	517,178	385,788

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

	2011	2010
Total assets		
Spain	665,212	663,738
Rest of the European Union	-	1,906
Rest of the World	28,655	20,097
Total assets	693,867	685,741

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

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

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

(In thousands of Euros)

6. Property, plant and equipment

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

Financial year 2010

	Land and buildings	Technical facilities and machinery	Other facilities, tooling and furniture	In progress and advances	Other fixed assets	Total
COST						
Opening balance	198,180	497,216	18,564	300	20,650	734,910
Additions	2,316	8,184	3,331	14,314	973	29,118
Disposals	(5,957)	(9,281)	(975)	-	(1,715)	(17,928)
Transfers	(33,151)	(9,410)	(1,954)	(510)	(2,429)	(47,454)
Closing balance	161,388	486,709	18,966	14,104	17,479	698,646
AMORTISATION						
Opening balance	48,691	334,784	7,648	-	17,650	408,773
Additions	2,434	17,951	529	-	663	21,577
Disposals	(2,129)	(8,576)	(147)	-	(1,713)	(12,565)
Transfers	(4,560)	(7,297)	(1,216)	-	(2,268)	(15,341)
Closing balance	44,436	336,862	6,814	-	14,332	402,444
PROVISIONS						
Opening balance	-	1,435	-	-	-	1,435
Disposals	-	(428)	-	-	-	(428)
Closing balance	-	1,007	-	-	-	1,007
NET BOOK VALUE						
Opening	149,489	160,997	10,916	300	3,000	324,702
Closing	116,952	148,840	12,152	14,104	3,147	295,195

(In thousands of Euros)

Financial year 2011

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

The tangible assets (property, plant and equipment) transferred to the disposal group classified as held for sale, during financial year 2010, amounted to 32,113,000 euros (net of accumulated amortization, see Note 15), and corresponded to assets used by the Almesa subgroup (belonging to the distribution segment) amounting to 29,469,000 euros, as well as other assets held by the Group.

The tangible assets (property, plant and equipment) transferred to the disposal group classified as held for sale, during financial year 2010, amount to 6,139,000 euros (net of accumulated amortization, see Note 15), and correspond to assets used by Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A.

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

(In thousands of Euros)

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

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

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

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

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

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

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

The present value of the future minimum payments that the Group will incur during the mandatory lease period (when it is considered that it is not going to exercise the extension or existing purchase option) is as follows:

	Up to 1 year	From 1 to 5 years	From 5 to 10 years	Total
Operations in 2010	464	2,140	913	3,517

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

(In thousands of Euros)

a) Revaluations

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

b) Tangible fixed assets subject to guarantees

Various tangible fixed assets are subject to loan operation guarantees and to the deferment of payments to institutions for a total of 7,998,000 euros as at 31 December 2011 and 2010. The secured debt pending payment as at 31 December 2011 amounts to 1,999,000 euros.

c) Insurance

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

These policies are deemed to provide sufficient cover.

d) Impairment losses

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

e) Leases

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

	2011	2010
Cost of capitalised finance leases	2,867	3,111
Accumulated depreciation	(1,070)	(2,198)
Net book value	1,797	913

(In thousands of Euros)

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

The income statement includes capital leases for the amount of 736,000 euros (2010: 558,000 euros) corresponding basically to lease of premises.

7. Intangible assets

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

Financial year 2010

	Emission rights	Computer software	Development expenses	Franchises, Patents & Licences	Customer portfolio	Total
COST						
Opening balance	1,740	4,686	27	532	452	7,437
Additions	1,469	1,085	939	54	294	3,841
Disposals	(1,780)	-	-	-	-	(1,780)
Transfers	-	(3,371)	-	-	(452)	(3,823)
Closing balance	1,429	2,400	966	586	294	5,675
AMORTISATION						
Opening balance	-	1,914	27	413	150	2,504
Additions	-	514	-	67	305	886
Transfers	-	(550)	-	-	(452)	(1,002)
Closing balance	-	1,878	27	480	3	2,388
NET BOOK VALUE						
Opening	1,740	2,772	-	119	302	4,933
Closing	1,429	522	939	106	291	3,287

(In thousands of Euros)

Financial year 2011

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

The intangible assets transferred to the disposal group classified as held for sale during financial year 2010 amounted to 2,821,000 euros and correspond to the assets used by the Almesa subgroup (belonging to the distribution segment).

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

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

8. Investment property

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

	Cost	Amortisation	Impairment	Net Value
Opening balance as at 1 January 2010	**8,910**	**(415)**	**(502)**	**7,993**
Additions	-	(185)	-	(185)
Transfers	(8,138)	299	502	(7,337)
Closing balance at 31 December 2010	**772**	**(301)**	**-**	**471**
Additions	-	(12)	-	(12)
Closing balance at 31 December 2011	**772**	**(313)**	**-**	**459**

(In thousands of Euros)

Investment properties include industrial premises which are owned, held for rental or for later sale. In reporting period 2011, revenue from the investment property owned by a subsidiary totalled 139,000 euros (208,000 euros in 2010).

In December of financial year 2010, certain items of investment property were transferred to assets held for sale (Note 15).

9. Non-current financial assets

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

Financial year 2010

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

	31 December 2009	Additions	Disposals	Transfers to short-term	31 December 2010
Group company holdings (Note 1)	947	118	(947)	-	118
Equity method holdings (Note 1)	311	16	(145)	-	182
Other loans	39	-	-	(39)	-
Deposits and guarantees	245	87	(108)	(178)	46
Available for sale financial assets	22,684	-	(20,262)	(2,422)	-
Loans and receivables	-	15,225	-	2,422	17,647
	24,226	15,446	(21,462)	(217)	17,993

(In thousands of Euros)

Financial year 2011

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

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

9.1 Group company holdings

The disposals made during the year under the "Group company holdings" heading, and which formed the balance as at 31 December 2010, correspond to the company Kunshan Inautek Automotive Components Co. Ltd. which has been included in the consolidation perimeter (Note 1).

9.2 Equity method holdings

Movements in equity method holdings were as follows:

	2011	2010
Opening balance	182	311
Share in profit / (loss)	(25)	(31)
Disposals	-	(98)
Closing balance	157	182

(In thousands of Euros)

Group holdings in the earnings of its subsidiary companies using the equity method (all Spanish companies, Note 1), none of which are listed on the stock market, together with their total assets and liabilities, are as follows:

	Total						Financial year results assigned to the Group		Group value	
	2011			2010						
Company	Assets	Liabilities	Equity	Assets	Liabilities	Equity	2011	2010	2011	2010
Landais Outsourcing, S.L.	299	59	240	252	60	192	14	16	71	57
Perimetral Sallen Technologies, S.L.	530	186	344	654	154	500	(39)	(47)	86	125
							(25)	(31)	157	182

9.3 Long-term loans and receivables

Long-term loans and receivables include:

	2011	2010
Bonds, debentures and other financial instruments	13,418	17,417
Others	230	230
	13,648	17,647

Long-term loans and receivables accrue interest at the rate of 2.22% (2010: 2%), with maturity of 12.8 million euros due in 2012 and of 0.8 million euros in 2014.

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

9.4 Credit quality of financial assets

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

These assets have not suffered impairment losses in reporting periods 2011 and 2010.

(In thousands of Euros)

10. Derivative financial instruments

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

	2011		2010	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward foreign currency exchange contracts	-	1,555	247	37
	-	1,555	247	37

As at 31 December 2011, there were forward exchange purchase and sale contracts, for operations carried out or highly likely, for a total amount of 59.2 million US dollars (USD) and 1.2 million pounds sterling (GBP) (2010: 42.6 million USD and 0.9 million GBP)), whose maturity is due in all cases during 2012 (for current operations as at 31 December 2011, 26.2 million USD and 0.8 million GBP in the first quarter and 33 million USD and 0.4 million GBP in the second quarter).

11. Inventories

	2011	**2010**
Goods	-	87
Raw materials and other consumables	54,800	54,315
Goods in process	22,190	26,526
Finished goods	33,758	35,246
Advances to suppliers	96	-
	110,844	116,174

As at 31 December 2010 the Inventories heading included 1,932,000 euros corresponding to Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A. The inventories balance as at 31 December 2011 for this company is classified under the “Disposal group assets classified as held for sale” heading (Note 15).

(In thousands of Euros)

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

	2011	2010
Continuing operations		
– Purchases	217,726	192,793
– Changes in raw materials and other consumables	(1,115)	(20,873)
– Changes in provision for impairment of work in progress and finished products	372	(347)
– Changes in work in progress and finished products from continuing operations	4,238	(20,275)
	221,221	151,298

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

	Total
As at 31 December 2009	**7,530**
Additions	1,507
Write-offs	(1,854)
Transfers	(948)
As at 31 December 2010	**6,235**
Additions	1,950
Write-offs	(1,472)
As at 31 December 2011	**6,713**

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

The transfer in financial year 2010 corresponds to the classification in Non-current assets held for sale of the provisions in the distribution segment.

(In thousands of Euros)

12. Customers and other receivables

	2011	2010
Customers	89,126	84,236
Less: Provision for impairment loss on accounts receivable	(3,717)	(7,229)
Customers - Net	85,409	77,007
Other accounts receivable (personnel, public administrations and other debts)	7,711	6,545
Accounts receivable from related parties (Note 36)	-	4
Total	93,120	83,556

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

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

As at 31 December 2011, the amount of customer balances and accounts receivable deducted in financial institutions totals 3,414,000 euros (2010: 5,731,000 euros), with the transaction being recorded as a bank loan (Note 21). In addition, the Group has certain factoring contracts with banking institutions. At year-end closing 2011 and 2010, there are no matured accounts receivable, with the consequent transfer of risk, profits and removal from the balance sheet.

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

Balances which have exceeded the nominal maturity date but are still within the usual time periods of the collection systems established with different customers, which range from 30 to 120 days, are not considered matured accounts receivable. As at 31 December 2011 there were no balances that would have exceeded the established collection agreements or usual payment periods and that were not considered in the corresponding impairment allowance provisions.

Customer accounts not subject to impairment losses correspond to independent customers with no recent history of default. Maturity for all these customer balances is less than twelve months (2010, less than twelve months).

(In thousands of Euros)

As at 31 December 2011, provision was made for all receivable accounts, whether due or not, whose recoverability might be considered doubtful at that time. Allowance for the corresponding provision for impairment has been carried out by estimating the reasonable loss that would correspond to each customer less the amounts whose recovery, from the insurance companies, is guaranteed.

Movements in the provisions for impairment loss in financial years 2010 and 2011 correspond to the following amounts and concepts:

	Total
As at 31 December 2009	**6,463**
Additions	5,723
Applications	(1,894)
Writing off of balances	(473)
Transfers	(2,590)
As at 31 December 2010	**7,229**
Additions	707
Applications	(336)
Writing off of balances	(3,595)
Transfers	(288)
As at 31 December 2011	**3,717**

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

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

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

(In thousands of Euros)

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

	2011	**2010**
US dollar	24,341	21,682
Pound sterling	1,793	668
	26,134	22,350

The age of overdue balances that the company has at 31 December 2010 and 31 December 2011 from continuing operations is as follows:

	2011	**2010**
Balances 3 months overdue	10,357	8,672
Balances 3 to 6 months overdue	1,697	1,019
	12,054	9,691

The age of provision for bad debts that the company has at 31 December 2010 and 31 December 2011 from continuing operations is as follows:

	2011	**2010**
Provision for balances 3 months overdue	924	1,421
Provision for balances 3 to 6 months overdue	2,792	5,808
	3,716	7,229

13. Other current financial assets

	2011	**2010**
Opening balance	52,883	83,053
Net movement in the financial period	(5,144)	(30,043)
Adjustment at fair value	-	(127)
Closing balance	47,739	52,883

(In thousands of Euros)

The composition of this balance, as at 31 December 2011 and 2010, classified as loans and receivables, is as follows:

	2011	2010
Short-term time deposits and disposal of fixed income transferable securities	47,739	52,742
Others	-	141
	47,739	52,883

The average return on these investments during 2011 was 2.22% (2010: 1.08%).

14. Cash and cash equivalents

	2011	2010
Cash and banks	15,951	19,352
	15,951	19,352

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

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

In financial year 2011, following the decision by the Board of Directors on the date mentioned above and the agreement with a third party subject to fulfilment of suspensive clauses, the Group has recorded the segment concerning the manufacture and sale of tanks under this heading and regarded it as a discontinued operation.

(In thousands of Euros)

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

	2011	2010
Cash flows from operating activities	3,684	(8,020)
Cash flows from investment activities	(464)	8,315
Cash flows from financing activities	(4,163)	(1,042)
Total cash flows	**(943)**	**(747)**

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

	2011	2010
Investment property	8,514	9,855
Property, plant and equipment	32,777	29,469
Intangible fixed assets	2,516	2,821
Other non-current assets	8,002	7,074
Inventories	18,154	24,819
Trade and other receivables	17,617	23,284
Other current assets	415	2,326
Provision for impairment of the business for sale	(8,249)	(21,197)
Total	79,746	78,451

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

	2011	2010
Non-current liabilities	21,839	23,971
Accounts payable	4,713	10,180
Other current liabilities	35,818	35,076
Total	62,370	69,227

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The Group values investment property at the lower of acquisition cost and fair value less costs to sell, estimating the fair value based on recent sales transactions or based on studies carried out by independent experts. In financial year 2010, the Group estimated the provision for the distribution segment based on alternatives that have been analyzed and compared with external studies. During financial year 2011, part of the provision established for impairment was applied, with no deviations having taken place as regards its initial estimate. Movements in provisions during financial year 2011 correspond basically to net tax losses in the period on the distribution segment.

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

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

	2011	**2010**
Income	59,122	52,635
Expense	(76,823)	(62,025)
Pre-tax loss on discontinued operations	(17,701)	(9,390)
Taxes	5,020	2,732
Loss after tax from discontinued operations	(12,681)	(6,658)
Pre-tax (loss)/profit recognised in the depreciation of the segment for sale	17,139	(25,832)
Taxes	(4,799)	4,635
(Loss)/profit after tax recognised on the depreciation of business	12,340	(21,197)
Loss in the financial year from discontinued operations	(341)	(27,855)

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

(In thousands of Euros)

16. Share capital and issue premium

	Shares traded (thousands)	Share capital	Issue premium	Treasury shares	Total
Balance as at 31 December 2009	174,681	17,468	387	(2,126)	15,729
Purchase of treasury shares (share buy-back)	-	-	-	(3,239)	(3,239)
Sale of treasury shares	-	-	-	911	911
Balance as at 31 December 2010	174,681	17,468	387	(4,454)	13,401
Purchase of treasury shares (share buy-back)	-	-	-	(2,254)	(2,254)
Sale of treasury shares	-	-	-	1,196	1,196
Balance as at 31 December 2011	174,681	17,468	387	(5,512)	12,343

a) Share capital

There were no changes in the share capital in reporting periods 2010 and 2011, with the total number of ordinary shares amounting to 174,680,888 shares with a par value of 0.1 euros each.

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

	2011 and 2010	
Company	**Number of shares**	**Percentage holding**
Grupo BBVA	40,881,325	23.40%
	40,881,325	23.40%

All the shares of the parent company are officially quoted on the Stock Exchanges in Bilbao and Madrid. Since 1 July 2005 they have been quoted in the main method (OPEN) on the Spanish Stock Market Interconnection System (SIBE). The listed price as at 31 December 2011 was 1.54 euros per share (1.83 euros per share on 31 December 2010).

b) Share issue premium

This premium is freely disposable.

(In thousands of Euros)

c) Treasury shares

Financial year 2010

The net amount of treasury shares presented on 31 December 2010 came from the following operations:

	Number of shares	Amount (Thousands of euros)
Opening balance	925,232	2,126
Additions	1,694,653	3,239
Sales	(408,376)	(911)
Closing balance	2,211,509	4,454

On 4 May 2010, the Annual General Meeting of Shareholders authorised the acquisition of treasury shares up to the maximum number of shares allowed by law for a maximum period of 18 months.

As at 31 December 2010, Clima, S.A.U. maintained the previously mentioned liquidity contract in force and owned 2,211,509 shares with a value of 4,454,000 euros.

Financial year 2011

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

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

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

(In thousands of Euros)

17. Other reserves and accumulated earnings

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

	2011	2010
Other reserves	48,924	49,140
Accumulated earnings	168,065	142,888
	216,989	192,028

a) Parent company prior years’ losses and reserves

At year end closing 2011 and 2010, the reserves (excluding issue premium) recorded in the financial statements of the parent company were as follows:

	2011	2010
Legal reserve	4,099	4,099
Voluntary reserve	60,221	60,221
Prior years’ losses	(14,618)	-
	49,702	64,320

Legal reserve

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

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

As at 31 December 2011 and 2010, the legal reserve exceeded the legal limit required.

Voluntary reserve

The voluntary reserve is freely available.

b) First conversion reserve

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

(In thousands of Euros)

c) Other unavailable reserves

As at 31 December 2011 and 2010, there were other unavailable reserves and cumulative earnings corresponding to:

	2011	**2010**
Legal reserve of investee companies	10,781	10,613
Balance sheet revaluation reserves (in accordance with local legislation)	732	732
	11,513	11,345

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

d) Interim dividend

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

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

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

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

No interim dividend charged to profit for the year was approved in reporting period 2010.

(In thousands of Euros)

e) Earnings distribution proposal

The earnings distribution proposal for 2011 of the parent company to be presented to the Annual General Meeting of Shareholders (according to the non-consolidated balance sheets prepared following GAAP criteria), as well as distribution of the approved 2010 earnings is as follows:

	2011	2010
Basis for distribution		
Results for the period	6,317	(14,618)
Distribution		
Prior years' losses	1,077	(14,618)
Dividends	5,240	-
	6,317	(14,618)

f) Stock options

There were no stock option plans on parent company shares at year end closing in either 2011 or 2010.

18. Minority interests

The movements that took place in the Minority interest account during financial years 2010 and 2011 were as follows:

	2011	2010
Opening balance	8,934	8,257
Distribution of dividends	(200)	(483)
Changes in the consolidation perimeter for Inauxa (Note 1)	4,485	-
Incorporation of EDAI Group into the consolidation perimeter (Note 1)	(14)	300
Results for the period	399	860
Closing balance	13,604	8,934

(In thousands of Euros)

Distribution by companies is shown in the chart that follows:

Company / Subgroup	2011	2010
Inauxa (Note 1)	10,284	5,538
EDAI (Note 1)	475	381
TR Lentz (Note 1)	2,845	3,015
	13,604	8,934

19. Deferred revenues

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

	2011	2010
Investment based tax deductions	5,185	37,285
Other deferred revenues	780	964
	5,965	38,249

Movements of investment based tax deductions were as follows:

	2011	2010
Opening balance	37,285	42,734
Earnings in the financial year	-	3,492
Payment to results of financial year (Notes 26 and 31)	(363)	(8,941)
Transfers (Note 24)	(31,737)	-
Closing balance	5,185	37,285

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

In financial year 2011 an amount of 31,735,000 euros was transferred as follows: 12,989,000 euros to “Long-term provisions” and 18,748,000 euros to “Short-term provisions”.

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20. Accounts payable

a) Other non-current liabilities

Included under this heading are the following items and amounts:

	2011	**2010**
Financial leasing creditors	1,486	350
Suppliers of fixed assets	1,511	4,085
Public Administration	1,763	3,091
Other creditors	7,860	8,811
	12,620	16,337

The Other creditors heading basically includes loans from official organisations at preferential rates, for the amount of 6.8 million euros (7.6 million euros in 2010), mainly in order to finance research and development projects.

At year end closing in 2011 and 2010, the Public Administration heading includes the balance due on tax deferrals.

The interest rate applied during financial year 2011 on finance leases amounted to 4% (2010: 2.3%).

Leases

The maturity dates of the leasing liabilities are as follows:

	2011	**2010**
Minimum leasing payments for leasing liabilities		
Less than 1 year	336	272
Between 1 and 2 years	918	277
Between 2 and 5 years	720	94
	1,974	643
Future financial charges for leasing operations	(177)	(23)
Present value	1,797	620

(In thousands of Euros)

The present value of leasing liabilities is as follows:

	2011	2010
Less than 1 year	311	270
Between 1 and 2 years	835	265
Between 2 and 5 years	651	85
	1,797	620

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

The summary of the conditions of the leasing contracts in force at the close of financial years 2010 and 2011 is shown in the chart that follows:

Financial year 2010

Item	Term	Cost	Purchase option value	Instalments paid (1)
Machinery	5 years	3,079	59	2,463
Other fixed assets	5 years	32	1	28
		3,111	60	2,491

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

Financial year 2011

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

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

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

(In thousands of Euros)

Other non-current liabilities

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

	2011	2010
Between 1 and 2 years	3,230	8,476
Between 2 and 5 years	6,655	6,689
More than 5 years	1,249	822
	11,134	15,987

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

b) Suppliers, other accounts payable and other current liabilities

Included under this heading are the following items and amounts:

	2011	2010
Suppliers	85,272	91,037
Remuneration pending payment	9,996	9,981
Other creditors	11,603	8,011
Suppliers of fixed assets	13,098	18,630
	119,969	127,659
Other current liabilities	125	76

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

As at 31 December 2010 and 2011, the items recorded under the Remuneration pending payment heading are, mainly, the payroll for the month of December, variable remuneration accrued during the period and other remuneration concepts established in accordance with the collective agreement.

The Other creditors heading basically includes debts with the Public Administration.

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

(In thousands of Euros)

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

	Payments made and pending payment at the balance sheet date	
	2011	
	Thousands of euros	%
Payments in the year within the maximum legal limit	229,686	91%
Other	23,903	9%
Total payments made in the year	**253,589**	**100%**
Average period of late payments (Days)		
Between 1 and 15 days	20,869	88%
Between 16 and 30 days	1,314	5%
Between 31 and 60 days	1,273	5%
More than 61 days	447	2%
	23,903	**100%**
Balance pending payment at year-end closing that exceeds maximum legal limit	449	

21. Borrowings

	2011	2010
Non-current		
Bank loans	144,799	116,433
	144,799	116,433
Current		
Short-term maturities of long-term loans	21,523	54,110
Import finance	-	271
Available in credit accounts	4,690	2,987
Discounted notes pending maturity (Note 12)	3,414	5,731
Advances on exports	-	101
Interest payable	2,247	1,781
	31,874	64,981
Total other borrowings	176,673	181,414

(In thousands of Euros)

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

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

	%	
	2011	**2010**
Bank credits and loans	3.6%	2.0%
Suppliers of fixed assets	1.9%	1.8%
Import finance	3.2%	2.1%
Discounted notes	3.1%	2.0%
Advances on exports	-	1.9%

The maturity of non-current borrowings is as follows:

	2011	**2010**
Between 1 and 2 years	34,433	60,913
Between 2 and 5 years	106,451	51,483
More than 5 years	3,915	4,037
	144,799	116,433

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

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

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

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	2011	2010
Variable interest rate:		
- with maturity due in less than one year	40,515	50,659
- with maturity due in more than one year	28,294	22,070
	68,809	72,729

22. Deferred tax items

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

	2011	2010
Temporary differences	8,717	9,872
Negative tax bases	5,332	1,074
Deductions in contributions pending use and others	11,119	7,161
Total	25,168	18,107

In addition, included under the "Non-current Assets Held for Sale and Discontinued Operations" heading are 6,760,000 euros of deferred tax assets as negative tax bases, 400,000 euros as temporary differences of liabilities and 1,039.000 euros as deductions (2010: 6,760,000 euros as negative tax bases and 4,635 ,000 euros as temporary difference of assets). (Note 15.d).

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

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

(In thousands of Euros)

The amounts of deferred tax items are as follows:

	2011	2010
Deferred tax assets:		
– - Deferred tax assets to be recovered in more than 12 months	16,756	14,291
– - Deferred tax assets to be recovered in 12 months	8,412	3,816
	25,168	18,107

The movements that took place in deferred tax assets during financial years 2010 and 2011 were as follows:

Deferred tax assets	Temporary differences	Negative tax bases	Deductions pending application	Total
As at 31 December 2009	8,901	9,542	3,905	22,348
Earnings in the financial year	2,197	3,764	3,238	9,199
Application	(1,226)	(5,406)	-	(6,632)
Transfers	-	(6,760)	-	(6,760)
Others	-	(66)	18	(48)
As at 31 December 2010	9,872	1,074	7,161	18,107
Earnings in the financial year and previous years	852	6,376	3,730	10,958
Application and disposals				
	(2,047)	(863)	-	(2,910)
Transfers	356	(1,424)	202	(866)
Others	(316)	169	26	(121)
As at 31 December 2011	8,717	5,332	11,119	25,168

The transfer under the negative tax bases heading in financial year 2010 corresponds to the tax credit for the distribution segment classified under the Assets held for sale heading. The transfer of deferred tax assets in financial year 2011 corresponds mainly to Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A., classified under the Assets held for sale heading. The tax earnings recorded during financial year 2011 in profit or loss from discontinued operations as generation of negative tax bases (tax loss carryforwards) amounted to 221,000 euros.

(In thousands of Euros)

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

Deferred tax assets for negative tax bases (tax loss carryforwards) and investment tax credits pending compensation are recognised as realisation of the corresponding tax benefit becomes probable through future tax benefits. The Group has no deferred tax assets pending recognition.

The balance of deferred tax liabilities corresponds to the fiscal effect of revaluation of land by application of IFRS 1 as at 1 January 2004. The movements in financial years 2010 and 2011 were as follows:

	Amount
Balance as at 31 December 2009	**23,121**
Disposals in the financial year	(394)
Restatements	(832)
Transfers to liabilities held for sale	(3,977)
Balance as at 31 December 2010	**17,918**
Transfers to liabilities held for sale	(242)
Others	(30)
Balance as at 31 December 2011	**17,646**

23. Retirement benefit obligations

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

	Amount
Balance as at 31 December 2009	**328**
Applications	(227)
Balance as at 31 December 2010	**101**
Balance as at 31 December 2011	**101**

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

As at 31 December 2011 and 2010, items under this heading include commitments with the personnel of certain subsidiaries (Note 2.19.b).

(In thousands of Euros)

24. Provisions

	Workforce restructuring scheme	Production activities provision	Pensions (Note 23)	Others	Total
As at 31 December 2009	16,578	1,323	328	1,224	19,453
Charge / (credit) to income statement					
Net charge to provisions	1,150	-	-	921	2,071
Utilised during the year	(166)	(51)	(227)	(718)	(1,162)
Transfers	(4,331)	-	-	-	(4,331)
As at 31 December 2010	13,231	1,272	101	1,427	16,031
Charge / (credit) to income statement					
Net charge to provisions	543	-	-	2,401	2,944
Utilised during the year	(325)	(110)	-	(769)	(1,204)
Transfers	(3,799)	-	-	12,770	8,971
As at 31 December 2011	9,650	1,162	101	15,829	26,742

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

b) The "Workforce restructuring scheme" heading includes, mainly, the estimated costs for adapting and rejuvenating workforces foreseen in the Group's Competitiveness Scheme. This was initially implemented in the Group through early retirement agreements and formalisation of several types of personnel severance agreements that affected 292 workers, covering severances in the 2004 - 2009 period, with payments reaching final maturity in 2014. During financial years 2009 and 2010, the Group submitted new schemes, part of which were implemented in 2010 and 1022, similar to those mentioned above, for which it made provisions in 2010 and 2011 of 2.2 million euros and 0.5 million euros, respectively, according to the best estimate of personnel who will finally be affected by these schemes, in accordance with the experience of previous periods for restructuring schemes of this kind. The total number of workers affected by these new schemes is 194.

c) Production activities provisions: this basically corresponds to the environmental renovation costs of the facilities being dismantled at the Group company, Productos Tubulares, S.A.U. (Note 1).

(In thousands of Euros)

d) In addition to what has been stated in point a), "Other provisions" includes the expenses generated by the emission of CO_2 gases in the production process, which amounted to 1,300,000 euros (921,000 euros in 2010), insofar as these emissions mean consuming the emission rights assigned (Note 37.b)). Likewise, this heading includes provisions made to cover expenses, insolvencies or deal with probable or certain responsibilities from litigation in course or other obligations arising from the carrying out of the Group's activity, including lawsuits related with claims of a commercial nature.

The "Short-term provisions heading" basically includes, in addition to what was stated in point a), the short-term part of the workforce restructuring scheme, amounting to 3,985,000 euros, as well as provisions for guarantees and responsibilities.

25. Operating income

	2011	2010
Sale of goods	458,056	334,345
Total ordinary income	458,056	334,345

Practically all amounts in foreign currency invoiced to customers have been in dollars (158 million euros, 115 million euros in 2010).

26. Other income

	2011	2010
Work performed by the Group on own assets	1,928	1,518
Other operating income	4,926	13,628
	6,854	15,146

A total of 1,300,000 euros resulting from the part consumed by emission rights have been attributed to results during 2011 (Note 2.7) (2010 - 921,000 euros).

(In thousands of Euros)

Other operating income includes recognition in income of investment based tax deductions for the amount of 370,000 euros (2010: 8,941,000 euros) (Note 19) and recognition in income for R&D in 2011 for the amount of 1,297,000 euros (2010: 516,000 euros) corresponding to tax incentives foreseen under current regulations for carrying out R&D&I projects. These projects have been classified as R&D&I by official organizations, as required by current regulations, and have been successfully implemented in the Group's production line.

27. Employee benefit expenses

	2011	2010
Wages, salaries and similar	78,792	67,547
Social welfare expenses	18,158	16,679
Pension contributions and endowments	1,961	1,612
	98,911	85,838

In the Group company Tubos Reunidos, S.A., on 20 November 2009, the Basque Government Department of Justice, Employment and Social Security approved a workforce adjustment plan (*Expediente de Regulación de Empleo*) authorising the Company to suspend the contracts of 767 workers for 75% of the labour timetable and a maximum of 90 working days in the period between 1 December 2009 and 31 May 2010 for production reasons. In the same way, in the Group company Productos Tubulares, S.A.U., on 10 December 2009, the Basque Government Department of Employment and Social Affairs approved a workforce adjustment plan (*Expediente de Regulación de Empleo*) authorising the company to suspend the contracts of 408 workers on its payroll, listed in the procedure, on a rotational basis, for 50% of the annual labour timetable, equivalent to 154 working days, in the period between 1 January 2010 and 31 December 2010 for production reasons. This was only applied until April 2010.

(In thousands of Euros)

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

	2011	2010
Blue collar	1,129	1,079
White collar	492	496
Directors	11	11
	1,632	1,586

As at 31 December of financial years 2010 and 2011, the breakdown of the Group workforce was as follows:

	2011			2010		
	Women	Men	Total	Women	Men	Total
Blue collar	31	1,100	1,131	23	1,108	1,131
White collar	120	383	503	128	364	492
Directors	1	10	11	1	10	11
	152	1,493	1,645	152	1,482	1,634

28. Other expenses

Details under this heading are as follows:

	2011	2010
External services	(81,742)	(68,716)
Taxes	(357)	(538)
Losses on, impairment of and change in allowances for trade receivables	(371)	(2,967)
Other current operating expenses	(1,710)	(857)
	(84,180)	(73,078)

(In thousands of Euros)

29. Other gains / (losses) - net

Included under this heading are the following items and amounts:

	2011	2010
Net profits / (losses) on fixed assets and assets held for sale	(444)	(234)
Non-recurring income	122	147
Reversal of provisions	110	50
	(212)	(37)

30. Financial income and expenses

	2011	2010
Financial income		
– Income from equity investments and other financial income	1,576	963
– Net gains/(losses) on foreign currency transactions (Note 10)	374	(1,160)
– Gains on the fair value of financial instruments	-	-
– Gains and losses on disposal of financial instruments	-	(23)
Financial expenses		
– Interest on bank loans and credits	(9,500)	(5,508)
– Losses on the fair value of financial instruments (Note 13)	-	(127)
Share of the profit or loss of associates and joint ventures accounted for using the equity method	(25)	(31)
	(7,575)	(5,886)

31. Income tax expense

	2011	2010
Deferred tax	(6,426)	1,432
	(6,426)	1,432

(In thousands of Euros)

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

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

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

	2011	**2010**
Profit before income tax	31,601	13,100
Recognition in income of tax criteria (Note 19) and of R&D	(1,667)	(9,457)
Profit	29,934	3,643
Tax calculated at nominal tax rates	7,536	905
Tax deductions generated in the financial year	(2,310)	(1,268)
Disposals	863	-
Consolidation adjustments and other items	337	(1,069)
Tax income / (expense)	6,426	(1,432)

The weighted average tax rate applicable to the Group, in nominal terms, is 25% (23% in financial year 2010), without considering the disposal group.

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The Company has the following tax loss carryforwards (negative tax bases) pending compensation as at 31 December 2011 (not including those generated in 2011 and those derived from discontinued operations classified as disposal group assets classified as held for sale):

Year	Amount	Last year of compensation
2005	483	2020
2010	2,962	2025
	3,445	

The tax legislation applicable for settling Corporation Tax for financial year 2011 is Alava Provincial Law 24/1996 of 5 July 1996, with subsequent amendments.

The Company's directors have calculated the amounts associated with this tax for financial year 2011 and the amounts open to inspection in accordance with the provincial regulations in force at each annual closing, as they consider that the final resolution of the different legal proceedings and the appeals lodged on the matter will not lead to any significant impact on the overall annual accounts.

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

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

(In thousands of Euros)

32. Earnings per share

a) Basic

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

	2011	2010
Profit/(Loss) attributable to Company shareholders for continuing operations	24,776	13,672
Weighted average number of ordinary shares in circulation (thousands)	172,150	173,243
Basic earnings/(loss) per share (€ per share)	0.144	0.079

	2011	2010
Profit/(Loss) attributable to Company shareholders for discontinued operations	(341)	(27.855)
Weighted average number of ordinary shares in circulation (thousands)	172,150	173,243
Basic earnings/(loss) per share (€ per share)	(0.002)	(0.161)

b) Diluted

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

33. Dividends per share

Dividends distributed and charged against 2010 profits are as follows:

	2011	
Date of approval	Amount Euros	Item
October 2011	0.012	1st interim
	0.012	

In financial year 2010 no dividends charged against 2010 profits were distributed.

(In thousands of Euros)

34. Cash flows from operating activities

	2011	2010
Profits for the year	24,834	(13,323)
Adjustments of:		
– Taxes	6,205	(8,799)
– Depreciation and impairment loss on property, plant and equipment	23,270	21,577
– Amortisation of intangible assets	791	886
– Own work capitalised	(1,928)	-
– Amortisation of investment property	12	185
– Impairment of investment property	-	126
– (Profit)/loss on sale of property, plant and equipment	(389)	(2,800)
- (Profit)/loss on sale of intangible fixed assets	-	(884)
– (Profit)/loss on sale of assets held for sale	(235)	-
– Other income related to fixed assets (subsidies)	(2,214)	(9,457)
– Net provisions to allowances	2,486	26,741
– (Gains)/Losses on the fair value of derivative financial instruments	1,765	(290)
– Interest income and equity interest	-	(963)
– Interest expense	9,500	5,593
Changes in working capital:		
– Inventories	(11,995)	(40,311)
– Customers and other receivables	9,794	(25,913)
– Change in provisions	(12,948)	-
– Other financial assets at fair value through profit or loss and other financial investments	901	26,180
– Suppliers and other accounts payable	(17,396)	37,761
Cash flows from operating activities	32,453	16,309

(In thousands of Euros)

35. Contingencies

The Group has contingent liabilities for bank guarantees and other guarantees related with the normal course of business with a limit of 6.6 million euros (2010: 7.7 million euros), from which no significant liability is expected to arise.

36. Commitments

a) Commitments to purchase fixed assets

The investments agreed (not incurred) at the balance sheet dates amount to 5.6 million euros in 2011 and 6.3 million euros in 2010.

b) Financing of investment commitments

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

37. Related party transactions

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

a) Operations with associates and non-consolidated Group companies

	2011	2010
Purchase of goods and services	394	353

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

Listed below are the balances, expressed in thousands of euros, held as at 31 December 2011 and 2010 with Grupo BBVA, the Group's major shareholder, broken down by items, together with the contract terms and conditions:

Financial year 2011

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

Financial year 2010

Item	Available balance	Final maturity	Guarantees
Long-term loans	39,250	2014	Personal
Credit facilities	709	Annual renewal	Personal
Discounted notes	791	Annual renewal	Personal
Confirming	5,517	Annual renewal	Personal
Import finance	-	Annual renewal	Personal
	46,267		

The amount of interest paid by all Group companies to Grupo BBVA during financial year 2011 in return for the contracts stated above and recorded in the consolidated income statement amounted to 1,905,000 euros (1,121,000 euros in 2010).

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

	2011	2010
Accounts receivable	4	4
Accounts payable	100	288

(In thousands of Euros)

c) Compensation for key executive staff

The aggregate yearly annual remuneration for Chief Executive Officers and similar staff of all the Group companies, who report directly to their governing bodies, totalled 1,471,000 euros in 2011 (2010: 1,386,000 euros) and includes seven persons, as detailed in the chart below:

	2011	2010
Short-term remuneration	1,437	1,352
Post-employment benefits	34	34
	1,471	1,386

As at 31 December 2010, the Group had no other benefit commitments with senior management personnel, either long-term employee benefits or share-based payments. A 2011-2014 incentive plan was approved in 2011, consisting of payment of variable remuneration linked to the value of Company shares in the 2011-2014 period, payable at the end of the period, for an amount to be situated between 0 euros and 150 percent of the annualized average fixed remuneration received by each beneficiary while the incentive plan is in force. Post-employment benefits paid during the year relate to contributions to the Social Welfare System, which is generally applied throughout the Group to all employees through defined contributions to a Voluntary Social Welfare Entity (EPSV).

d) Remuneration for Directors of the parent company

The remuneration received during the course of the financial year by the members of the Board of Directors of Tubos Reunidos, S.A., in their capacity as directors of the Company, of any kind or for whatever reason, including the salaries of the Directors who also perform executive functions within the Group, amounted in total to 1,822,000 euros (2010: 1,717,000 euros). Likewise in 2011, in accordance with Company by-laws, contributions were made to pension schemes for two members of the Board of Directors for a joint amount of 584,000 euros, as detailed in the chart below:

	2011	2010
Short-term remuneration	1,822	1,717
Post-employment benefits	584	24
	2,406	1,741

As at 31 December 2010 and 2011, the Group has no other benefit commitments with its Directors, either long-term employee benefits or share-based payments, except the above mentioned contributions to pension schemes for two members of the Board of Directors approved in 2011.

The company has not granted any loans to members of the Board of Directors during financial years 2011 or 2010.

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

In accordance with the provisions of article 229 of the Public Limited Companies Act, implemented as a result of Royal Decree 1/2010, dated 2 July, the directors declare that they hold the following posts in companies engaging in an activity that is the same, similar or complementary to the main business activity of the parent company, all Group companies, except Tubacex, S.A. and Grupo Condesa:

Name of the Director	Name of the Group company	Position
Pedro Abásolo Albóniga	Productos Tubulares, S.A.U.	Sole Administrator (representing Tubos Reunidos, S.A.)
Pedro Abásolo Albóniga (1)	Industria Auxiliar Alavesa, S.A.	Board Member
Pedro Abásolo Albóniga	ALMESA Internet, S.A.	Board Member
Luis Fernando Noguera de Erquiaga (1)	Industria Auxiliar Alavesa, S.A.	Board Member
Juan José Iribecampos Zubia	Grupo Condesa	Administrator
Juan José Iribecampos Zubia	Tubacex, S.A.	Board Member
Luis Fernando Noguera de Erquiaga	Tubos Reunidos Industrial, S.L.U.	Sole Administrator (representing Tubos Reunidos, S.A.)
	Almacenes Metalúrgicos, S.A.U.	Sole Administrator (representing Tubos Reunidos, S.A.)
Luis Fernando Noguera de Erquiaga	Almesa Internet, S.A.	Board Member
Luis Fernando Noguera de Erquiaga	Acecsa – Aceros Calibrados S.A.	Sole Administrator (representing Tubos Reunidos, S.A.)
Luis Fernando Noguera de Erquiaga	Tubos Reunidos América, Inc	Chair

(1) At the Board Meeting of Industria Auxiliar Alavesa S.A. held on 23 March 2011, Mr. Pedro Abásolo Albóniga resigned from the Board of Directors and Mr. Luis Fernando Noguera de Erquiaga was appointed to it.

(In thousands of Euros)

Mr. Juan José Iribecampos Zubia is a major shareholder of Grupo Condesa, manufacturer of welded steel tubes, and through Bagoeta, S.L. they have an indirect holding of 18% in Tubacex, S,A, manufacturer of stainless steel tubes.

There were no conflicts of interest to be considered during the current year.

38. Other information

a) Fees paid out to auditors of the accounts for Group companies and related companies

Audit fees paid out to all the firms auditing Group companies amounted to 251,000 euros (2010: 256,000 euros).

The main auditor provided other services to Group companies in financial year 2011 for the amount of 27,000 euros. 8,000 euros). There was no additional billing by other companies that use the PwC brand regarding any other services provided (2010: 39,000 euros).

b) Environmental issues

As part of its property, plant and equipment, the Group owns facilities used to conduct work to protect and enhance the environment. This work is carried out by its own personnel, with support being provided by specialised external companies. All this is framed within the strategic environmental plan that the Company has introduced in order to reduce the environmental risks connected to its operations and to improve its environmental management procedures. The investments made and the expenses incurred during financial year 2011 in relation to the protection and enhancement of the environment amounted to 1,445,000 and 2,291,000 euros (2010: 1,929,000 and 2,164,000 euros), respectively. These amounts are recorded under the corresponding headings of “Property, plant and equipment” on the attached balance sheet and under “Other expenses” on the attached income statement.

With regard to rights regulated by the National Plan for the Allocation of Emission Rights (Notes 2.7 and 7), the amount of rights allocated to Tubos Reunidos, S.A. and its subsidiaries during the period the said National Allocation Plan is in force, and their annual distribution from 2010 to 2013, is as follows:

	Rights allocated (Tm.)
2010	118,620
2011	118,620
2012	118,620
2013	118,620
Total	474,480

For financial year 2011, the amount of the costs arising from the consumption of emission rights, which have been recorded as a counter entry of the corresponding provision (Note 24) amounted to 1,301,000 euros (2010: 921,000 euros).

Estimated consumption of emission rights for financial year 2011 will not exceed the rights allocated. The rights consumed in financial year 2010 did not exceed those allocated.

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

MANAGEMENT REPORT FOR FINANCIAL YEAR 2011
(In thousands of Euros)

Financial year 2011, like the previous period, was characterized by uncertainty in the macroeconomic environment. In addition to strictly economic factors, there were other exceptional circumstances during the year, such as the earthquake and subsequent tsunami in Japan or the political and social instability in some countries in North Africa and the Middle East, which had a significant influence both on the perception of risk in the world situation and in economic transactions with the countries concerned.

In this environment, overall activity shifted from a first half in which it appeared that the crisis would finally be behind us, to a few months, after the summer, when growth weakened and doubts about the economy reappeared.

This situation was especially evident in the European Union, where the slowdown in some countries that had experienced growth in the first half of the year, like in the case of Germany and the Nordic countries, was added to still unresolved problems in other countries (mainly those situated to the South, with Greece at the head).

The situation was, on the contrary, more positive in other parts of the world such as the Far East, which continued in expansion driven by India and China, South America, where Brazil also maintained its thrust despite some moments of hesitation and Eastern Europe.

In this context, the price of oil at the end of 2011 was 117 USD per barrel, having marked a bullish trend throughout the year, which has positively influenced crude oil drilling and extraction activity. However, raw materials related to the steel industry showed much more erratic tendencies, alternating major price drops (such as in the case of nickel), with the stability experienced by scrap and molybdenum, which have not changed significantly in price, affected by a downturn in the steel industry.

With regard to other markets that affect our businesses, the euro closed the year at an exchange rate of 1.29 USD, after fluctuating in a highly volatile manner between a minimum of 1.49 and a maximum of 1.26. Interest rates remained very low, although increases in risk premia experienced in Europe were transferred to the cost of financing, meaning that it underwent a significant increase.

Business progressed very satisfactorily for Grupo Tubos Reunidos in 2011, thereby confirming the clear trend of improvement that started during the previous year.

The factors that have had a major influence on this positive evolution are the increased activity in the oil and gas sector, not only in North America but also in the Middle East and Asia, the significant business conducted by European stockists and distributors, particularly in the first half of the year, as well as the investments being made in the field of power generation in emerging countries.

The result of the business activity performed by Grupo Tubos Reunidos in 2011 may be described as superb. The net consolidated turnover stood at 458.1 million euros, making it 37 per cent more than in the preceding year, with net profit of 24.4 million euros and EBITDA of 60.4 million euros being achieved, which is much higher than the 39.3 million euros obtained in 2010.

Self-financing for the year, together with very favourable development of working capital, enabled a very solid financial structure to be maintained in 2011, with working capital of 82.3 million euros in continuing operations as at 31 December and net debt, on the same continuing operations, of 113 million euros. The Group's net shareholders' equity amounted to 238.3 million euros at year-end closing, with total assets for a value of 693.9 million euros.

In the Human Resources Department, the organizational and structural establishment of the new persons incorporated in recent years must be highlighted. In the same way, a major effort has been made in training, focusing particularly on specific subjects for different jobs, in the search for versatility, and in occupational safety and prevention. In 2011 the Productos Tubulares plant was awarded the Lloyd's Register certificate for its Occupational Hazard Prevention Management System in accordance with OHSAS 18001. The Tubos Reunidos Industrial plant in Amurrio already had this certification.

One basic objective of Grupo Tubos Reunidos is respect for environmental issues, seeking a balance between our activity and sustainable development. Along these lines, the goals and targets identified in the Basque Environmental Strategy for Sustainable Development 2002-2020, a fundamental milestone in Basque environmental policy, were met for year 2011.

The investment plan implemented throughout the year, for a total of 36.9 million euros, was clearly committed to innovation in processes and products, as an essential factor for consolidating the Group's competitive position, without forgetting the important amounts dedicated to the environment, safety and prevention. In the same way, important R&D&I projects were carried out in 2011, many of them in collaboration with laboratories and technology centres, backed by increased financial and human resources as an essential factor to ensure the future differentiation and competitiveness of the Group's products and processes.

With regard to future considerations, the Group's Strategic Plan for the 2011-2014 period was approved in 2011. Its main goals and lines of work include every greater product range specialization, increasing internationalization of sales, higher exposure to energy-related markets, increased sales in markets and product with better profitability and future and, of course, maintaining our competitive position by containing costs.

In the Annual Report with the annual consolidated financial statements, drawn up and presented by the board of directors in accordance with International Accounting Standards, the principal risks and uncertainties relating to the Group's businesses are detailed.

Concerning treasury shares, the only operations were carried out in the framework of the Liquidity Contract signed with Norbolsa, SV, S.A. on 21 July 2008, as foreseen in Circular 3/2007 of the National Stock Market Commission (*Comisión Nacional del Mercado de Valores* - CNMV), of 19

December 2007. The CNMV has been duly informed about the contract terms and the details of the specific operations carried out, which may be consulted on its website. In summary, 1,199,993 treasury stock shares were purchased and 556,362 were sold during 2011, with the Company having a treasury stock portfolio of 2,855,140 shares as at 31 December.

Insofar as 2012 is concerned, macroeconomic development will continue to be subject to uncertainty, at least for the first part of the year.

Europe is at the crossroads and must tackle the high deficits in some member countries without delay, thereby ending the financial restrictions imposed due to their high risk premia, but, at the same time, it seems increasingly to be destined to have to again implement certain stimulation measures in view of the very low growth rates recorded in the last quarter of 2011.

In the rest of the world the situation seems to be stronger, with moderate growth in the US economy and more robust situations in emerging countries. The only risk is the effect that the situation in Europe might have on these areas. Finally, the risks associated with political and social uncertainty in certain areas of the world, such as North Africa and the Middle East, far from being resolved, are still ongoing and, meanwhile, new areas in a situation of latent conflict have arisen.

Standing out as a positive note in this context is the evolution of activity in the oil and gas world, which remains important, linked to the price of oil, driven by the uncertainty in the Middle East, which has already exceeded 120 USD per barrel, as well as continuing investments in the energy sector in emerging countries.

Nevertheless, and despite the above uncertainties, Grupo Tubos Reunidos faces financial year 2012 optimistically. Its differential business model compared to the competition in terms of product quality, flexibility and customer service, together with its experience and reputation in the main tube markets, should provide the Group with opportunities that enable it to maintain the current positive situation. To achieve this, adaptation to market conditions and prioritizing in the selection of products and markets will continue to be decisive factors.

Amurrio (Álava), 23 February 2012

The Board of Directors of the Company **"TUBOS REUNIDOS, S.A."**, with company tax registration number A / 48/011555 and registered offices in Amurrio (Álava), in accordance with article 253 of the revised text of the Public Limited Companies Act, have drawn up the financial statements and management report for **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES** for financial year 2011, all of which extends to and is identified by the documents indicated below:

Consolidated financial statements:

- Contents: transcribed on two (2) sheets of official stamped paper, numbers _____ and _____.
- Consolidated statements of financial position: transcribed on one (1) sheet of stamped paper, number ____________.
- Consolidated Income Statements: transcribed on one (1) sheet of official stamped paper, number ____________.
- Consolidated statements of comprehensive income: transcribed on one (1) sheet of official stamped paper, number ____________.
- Consolidated statements of changes in shareholders' equity: transcribed on one (1) sheet of official stamped paper, number ____________.
- Consolidated statements of cash flows: transcribed on one (1) sheet of official stamped paper, number ____________.
- Consolidated Annual Report: transcribed on ninety-one (91) sheets of official stamped paper, numbers ________ to ____________.

Management Report: transcribed on three (3) sheets of official stamped paper, numbers _________ to _________, together with the **Annual Report on Corporate Governance**: transcribed on sixty-four (64) sheets of official stamped paper, numbers _________ to _________.

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

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

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

Amurrio (Alava), 23 February 2012