

## ANNEX I

### ANNUAL REPORT ON CORPORATE GOVERNANCE

#### COMPANY IDENTIFICATION

END OF BUSINESS YEAR	31/12/2013
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VAT Number/C.I.F	A-01003946
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#### CORPORATE NAME

TUBACEX, S.A.

#### REGISTERED OFFICE

TRES CRUCES, 8, (LLODIO) ALAVA

This Annual Corporate Governance Report forms part of the Management Report

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document which this translation is intended to reflect, the text of the original Spanish-language document shall prevail.

## A. OWNERSHIP STRUCTURE OF THE COMPANY

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

Date of last change	Share capital (Euros )	Number of shares	Number of voting rights
25/05/2001	59,840,451.90	132,978,782	132,978,782

State whether there are different classes of shares with different rights attaching thereto:

NO

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the fiscal year, excluding directors:

Individual or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
CARTERA INDUSTRIAL REA, S.A.	6,648,940	0	5,000
ITZARRI, EPSV	6,566,997	0	4,940
ECOFIN LIMITED	0	6,422,504	4,830
ECOFIN WATER&POWER OPPORTUNITIES PLC	6,648,940	0	5,000

Individual or corporate name of indirect holder of the interest	Through: Individual or corporate name of direct holder of the interest	Number of direct voting rights
ECOFIN LIMITED	ECOFIN WATER&POWER OPPORTUNITIES PLC	6,422,504

Indicate the most significant changes in the shareholding structure that have occurred during the fiscal year:

Individual or corporate name of shareholder	Date of transaction	Description of transaction
GRUPO CORPORATIVO EMPRESARIAL DE LA CAJA DE AHORROS Y MONTE DE PIEDAD DE NAVARRA, S.A.U	22/04/2013	Has fallen below 3% of share capital
ECOFIN LIMITED	22/04/2013	Has exceeded 3% of share capital
ATALAYA INVERSIONES S.R.L	10/01/2013	Has fallen below 3% of share capital
ECOFIN WATER&OPPORTUNITIES PLC	22/04/2013	Has exceeded 3% of share capital
ITZARRI EPSV	10/01/2013	Has exceeded 3% of share capital

A.3. Complete the following tables about members of the Board of Directors of the Company who have voting rights attaching to shares of the Company:

Individual or corporate name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Mr. JESUS ESMORIS ESMORIS		900	0,000
Mr. ÁLVARO VIDEGAIN MURO	134,000	9,400	0.108
Mr. ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	34,700		0.026
BAGOETA, S.L.	0	23,521,759	17,690
Mr. GERARDO ARÓSTEGUI GÓMEZ	0	43.000	0.032
Mr. XABIER DE IRALA ESTEVEZ	13,000	0	0,010
Mr. IGNACIO MARCO GARDOQUI	43.500	10,411	0.041

Individual or corporate name of indirect holder of the interest	Through: Individual or corporate name of direct holder of the interest	Number of direct voting rights	% of total voting rights
Mr. JESUS ESMORIS ESMORIS	Mr. JESUS ESMORIS ESMORIS	900	0,000
Mr. ÁLVARO VIDEGAIN MURO	Mr. ÁLVARO VIDEGAIN MURO	9,400	0,007
BEGOETA, S.L.	LARREDER, S.L.	23,521,759	17,690
Mr. GERARDO ARÓSTEGUI GÓMEZ	Mr. GERARDO AROSTEGUI GOMEZ	43,000	0,032

Total percentage of voting rights held by the board of directors	17,900
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Complete the following tables about members of the Company's board of directors who hold rights to shares of the Company:

A.4. Describe, if applicable, the family, commercial, contractual or corporate relationships between significant shareholders, to the extent known to the Company, unless they are immaterial or result from the ordinary course of business:

A.5. Describe, if applicable, the commercial, contractual or corporate relationships between significant shareholders and the Company and/or its group, unless they are immaterial or result from the ordinary course of business:

A.6. Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprises Act ("LSC"). If applicable, provide a brief description and list the shareholders bound by the agreement

NO

Indicate whether the Company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

NO

Expressly indicate whether any of such agreements, arrangements or concerted actions have been modified or terminated during the fiscal year.

NO

A.7. Indicate whether there is any individual or legal entity that exercises or may exercise control over the Company pursuant to Section 4 of the Securities Market Law. If so, identify it:

NO

A.8. Complete the following tables about the Company's treasury stock:

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
3,142,975	0	2.364

(\*) Through:

Total	0
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Describe any significant changes, pursuant to the provisions of Royal Decree 1362/2007 that have occurred during the fiscal year:

Gains/(Losses) on the Company's own stock transferred during the period	0
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A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders acting at the General Shareholders' Meetings to the Board of Directors in order to acquire or transfer Company stock:

In the Stockholder's Annual General Meeting, held on 27 May 2010, in its second calling, the Board of Directors was authorized to acquire derivative stock of TUBACEX, S.A. by TUBACEX, S.A. itself, during the maximum term of five years, thus annulling the agreement approved in the General Meeting held on 28 of May 2009 in what has not been executed.

Such acquisitions must be done within the following limits:

1.- That the total number of stocks acquired by the Company and its subsidiaries does not exceed 10% of the total capital of TUBACEX, S.A..

2.- That a provision can be made under the stockholders' equity in the balance sheet as a restricted reserve equivalent to the cost of the acquired stocks.

The acquisition of stocks must be done in the quoted price of the day in which such acquisitions take place or, in the event that the stocks were not quoted, in the trading price of the last day it was quoted in the markets.

Likewise, the Board of Directors is authorized to dispose of the acquired own stocks, in their quoted price, as established in the immediately preceding paragraph.

A.10. Indicate, if applicable, any legal or bylaw restrictions on the exercise of voting rights and any legal restrictions on the acquisition or transfer of interests in share capital.

NO

A.11. Indicate whether the shareholders acting at a General Shareholders' Meeting have approved the adoption of breakthrough measures in the event of a public tender offer pursuant to the provisions of Law 6/2007:

NO

If applicable, describe the approved measures and the terms on which the restrictions will become ineffective.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

NO

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

## B. GENERAL SHAREHOLDERS' MEETING

B.1. Indicate and, if applicable, explain whether there are differences with the minimum requirements set out in the Companies Law in connection with the quorum needed to hold a valid General Shareholders' Meeting.

NO

B.2. Indicate and, if applicable, explain whether there are differences with the rules provided by the Companies Law for the adoption of corporate resolutions.

NO

Describe the differences with the rules provided by the Companies Law.

B.3. Explain the rights of the shareholders regarding general shareholders' meetings which are different from the rights provided in the Companies Law.

Pursuant to the Companies Law and Articles 4 and 19 of the Regulations of the Shareholders General Meeting, the approval of any amendment to the bylaws is the exclusive competence of the General Meeting of Shareholders and Resolutions shall be adopted by the affirmative vote of a majority of the voting capital present or represented at the Meeting, without prejudice reinforced quorum and voting as established by law or in bylaws.

B.4. Indicate the data on attendance at the general shareholders' meetings held during the fiscal year referred to in this report:

Attendance data					
Date of General Shareholders' Meeting	% of shareholders present in person	% of shareholders represented by proxy	% distance voting		Total
			Electronic voting	Other	
29/05/2013	32.150	17.870	0,000	0,000	50.020

B.5. Indicate whether there are any bylaw restrictions requiring a minimum number of shares to attend the General Shareholders' Meeting.

NO

B.6 Indicate whether decisions involving a fundamental corporate change (“subsidiarization”, acquisitions/disposals of key operating assets, operations that effectively entail the company’s liquidation) must be submitted to the general shareholders’ meeting for approval or ratification even when not expressly required under company law.

YES

B.7. Indicate the address and manner for accessing corporate governance content on your website.

All documents regarding the corporate governance of the company is available on corporate website. (www.tubacex.com)

## C. STRUCTURE OF THE COMPANY’S MANAGEMENT

### C.1. Board of Directors

C.1.1. Describe the maximum and minimum number of Directors set forth in the bylaws:

Maximum number of directors	12
Minimum number of directors	5

C.1.2. Complete the following table identifying the members of the Board of Directors:

Individual or corporate name of directors	Representative	Position	Date first appointment	Date last appointment	Election procedure
Mr. ÁLVARO VIDEGAIN MURO	--	PRESIDENT	15/07/1992	28/05/2013	VOTE AT GENERAL SHAREHOLDERS’ MEETING
Mr. JESUS ESMORIS ESMORIS	--	CEO	28/05/2013	28/05/2013	VOTE AT GENERAL SHAREHOLDERS’ MEETING
Mr. JUAN ANTONIO GARTEIZGOGEASCOA IGUAIN	--	VICE-PRESIDENT	21/09/1994	28/05/2009	VOTE AT GENERAL SHAREHOLDERS’ MEETING
Mr. ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	--	BOARD MEMBER	28/05/2009	28/05/2009	VOTE AT GENERAL SHAREHOLDERS’ MEETING

Mrs. CONSUELO CRESPO BOFILL		BOARD MEMBER	28/05/2009	28/05/2009	VOTE AT GENERAL SHAREHOLDERS' MEETING
Mr. GERARDO ARÓSTEGUI GÓMEZ	--	BOARD MEMBER	25/06/1991	25/05/2006	VOTE AT GENERAL SHAREHOLDERS' MEETING
Mr. JUAN JOSÉ IRIBECAMPOS ZUBIA	--	BOARD MEMBER	22/05/2008	22/05/2008	VOTE AT GENERAL SHAREHOLDERS' MEETING
Mr. JUAN RAMÓN GUEVARA SALETA	--	BOARD MEMBER	21/09/1994	28/05/2009	VOTE AT GENERAL SHAREHOLDERS' MEETING
Mr. LUIS MARÍA URIBARREN AXPE	Mr. LUIS MARIA URIBARREN AXPE	BOARD MEMBER	23/05/2012	23/05/2012	VOTE AT GENERAL SHAREHOLDERS' MEETING
Mr. IGNACIO MARCO-GARDOQUI IBAÑEZ	--	BOARD MEMBER	23/05/2012	23/05/2012	VOTE AT GENERAL SHAREHOLDERS' MEETING
Mr. XABIER DE IRALA ESTÉVEZ	--	BOARD MEMBER	28/05/2009	28/05/2009	VOTE AT GENERAL SHAREHOLDERS' MEETING

Total number of directors	11
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Indicate vacancies on the Board of Directors during the period:

Individual or corporate name of directors	Type of director at leaving date	Leaving date
GRUPO CORPORATIVO EMPRESARIAL DE LA CAJA DE AHORROS Y MONTE DE PIEDAD DE NAVARRA SAU	Proprietary	22/04/2013
ATALAYA INVERSIONES SRL	Proprietary	28/01/2013

C.1.3. Complete the following table about the members of the Board and each member's status:

#### EXECUTIVE DIRECTORS

Individual or corporate name of directors	Committee that has proposed the director's appointment	Position within the Company's structure
Mr. JESUS ESMORIS ESMORIS	SHAREHOLDERS' MEETING 28-5-2013	CEO

Total number of executive directors	1
Total % of Board of Directors	9.090



## EXTERNAL PROPRIETARY DIRECTORS

Individual or corporate name of directors	Committee that has proposed the director's appointment	Individual or corporate name of the significant shareholder represented by the director or that has proposed the director's appointment
Mr. ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CARTERA INDUSTRIAL REA, S.A.
Mr. JUAN JOSÉ IRIBECAMPOS ZUBIA	APPOINTMENTS AND REMUNERATIONS COMMITTEE	BAGOETA, S.L
BAGOETA. S.L.	APPOINTMENTS AND REMUNERATIONS COMMITTEE	BAGOETA, S.L

Total number of proprietary directors	3
Total % of Board of Directors	27.270

## EXTERNAL INDEPENDENT DIRECTORS

### Individual or corporate name of director

Mr. JUAN ANTONIO GARTEIZGOGESCOA IGUAIN

### Profile

JUAN ANTONIO GARTEIZGOGESCOA IGUAIN.

A graduate in Economics (UPV), he holds a Master's in Quantitative Management (from the San Sebastián Higher Business School) and a Master's in Tax Consultancy (from the Madrid Business Institute). He has worked at Helisold S.A. and TALDE S.A., a venture capital company, and has been a board member of a number of the investee companies in this Group. In 1987 he founded FORETAX S.A., a company providing tax planning and consultancy, of which he is the main partner. He lectured on the Tax Consultancy Master's course at the University of Deusto. In 2005 he was appointed Deputy Chair of the Board of Directors of TUBACEX. He has been a director of TUBACEX since 1994.

### Individual or corporate name of director

Mrs. CONSUELO CRESPO BOFILL

### Profile

CONSUELO CRESPO BOFILL

Originally from Barcelona, she obtained a Bachelor of Science in Biology, and a Master's Degree in International Decentralized Cooperation "Peace and Development

within the United Nations Framework" (University of the Basque Country - UPV). After working for years as a coordinator in the Barcelona slums and with immigrant women in Vizcaya, she started volunteer work with UNICEF in 1993. From 1994 to 2005 she was the President of the UNICEF Committee in the Basque Country and since 2005 she is the President of UNICEF- Spain. She is a member of Acciona S.A.'s Board of Directors. She is a member of the Jury of the Prince of Asturias Awards for International Cooperation and of the Governing Council of the University of Deusto. She is a director at TUBACEX since 2009.

**Individual or corporate name of director**

Mr. GERARDO ARÓSTEGUI GÓMEZ

**Profile**

GERARDO ARÓSTEGUI GÓMEZ.

Bachelor of Economics and Business Administration (University of Deusto), he began his career in TUBACEX S.A., where he held several positions until becoming General Sub-secretariat. He was Deputy General Director of BBV bank. In 1985 he joined Plus Ultra as Counselor-General Manager, a company in which he was appointed CEO in 1990. He has been the Executive President at Aviva Grupo Corporativo and Aviva Vida y Pensiones, President of Aseval, Bia Galicia, Unicorp Vida, Caja España Vida and General Vida. He was also the member of the Advisory Board of the Dirección General de Seguros y Fondos de Pensiones and a Counselor of the Consorcio de Compensación de Seguros, of Nacional de Reaseguros and the UNESPA. He is Chairman of Tinsa and Qualitasa, and Director of Resolution Ltd. and Resolution Holdings (Guernsey) Ltd. He is a director at TUBACEX since 1991.

**Individual or corporate name of director**

Mr. JUAN RAMÓN GUEVARA SALETA

**Profile**

JUAN RAMÓN GUEVARA SALETA.

Lawyer. From 1985 to 1991 he was the Basque Government Minister for the Presidency, Justice and Autonomous Development. During this period he also held the positions of Representative of the Basque Autonomous Community in the Conference of Local and Regional Authorities of the Council of Europe, a member of the Standing Committee and the Bureau of the Assembly of European Regions and Joint President of the Euskadi-Aquitaine Interregional Cooperation Committee. He left politics in 1991 and returned to his law practice. He is an honorary member of the International Institute for the Sociology of Law in Oñati and of the Basque Institute of Criminology. He has been a director of TUBACEX since 1994.

**Individual or corporate name of director**

Mr. IGNACIO MARCO-GARDOQUI IBAÑEZ

**Profile**

IGNACIO MARCO-GARDOQUI IBAÑEZ

Bachelor of Economics and Business Administration (University of Deusto), he started his professional career in Brussels in the DG III of the European Commission. He has been the Sales Director of Tubacex Taylor Accesorios (TUBACEX Group), General Secretary of SPRI and Managing Director of EVE. He was also Executive Director at Morgan Stanley, Private Banking Director of La Caixa and Professor at the Deusto Business School. He has been an economic commentator for Grupo Vocento since 1991, a member of the Deusto University Governing Board and Member of the Boards of Schneider Electric España, Viscofan, Minersa and Iberdrola Ingeniería y Construcción. He is a director at TUBACEX since 2012.

**Individual or corporate name of director**

Mr. XABIER DE IRALA ESTÉVEZ

**Profile**

XABIER DE IRALA ESTÉVEZ

Industrial Engineer and MBA by the La Salle University (The Philippines), he is a director for Iberdrola, Alestis Aerospace, Barceló and Deusto Business School; and President of BBK Bank. He is Honorary President and Founder of Exceltur, member of the Board of Directors of Innobasque and of the Board of Regents of APD. He has been the President of Bilbao Bizkaia Kutxa (BBK) and the Fundación Vasco-Navarra de Cajas de Ahorro, President of Iberia Airlines, Executive Vice Chairman of Grupo ABB (Madrid), Vice Chairman of Finance of General Electric CGR (Paris, London), CEO of GE Portuguesa (Lisbon) and CEO of General Eléctrica Española (Bilbao). He has been the President of the International Air Transport Association (IATA) and of European Airlines Association (AEA). He is a director at TUBACEX since 2009.

Total number of independent directors	6
Total % of Board of Directors	54.540

Indicate whether any director considered an independent director is receiving from the company or from its group any amount or benefit under any item that is not the remuneration for his/her directorship, or maintains or has maintained over the last year, a business relationship with the company or any company in its group, whether in his/her own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such a relationship.

None of independent directors of the company perceives from the company or its consolidated group or any other remuneration different from the one regarding his position as Director.

Where applicable, include a reasoned statement from the board with the reasons why it deems that this director can perform his/her duties as an independent director.

#### OTHER EXTERNAL DIRECTORS

Individual or corporate name of directors	Committee that has proposed the director's appointment
Mr. ALVARO VIDEGAIN MURO	APPOINTMENTS AND REMUNERATIONS COMMITTEE

Total number of independent directors	1
Total % of Board of Directors	9.090

Describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management or its shareholders.

Name Mr. Alvaro Videgain

Reasons Because his has been CEO until 2013, January 28<sup>th</sup>

Indicates the changes, if any, in the type of director during the period:

Individual or corporate name of directors	Date of change	Previous type	Actual type
Mr. ALVARO VIDEGAIN	28/01/2013	Executive	Other external

C.1.4 Complete the following table on the number of female directors over the past four years and their category:

	Number of females				% of females			
	2013	2012	2011	2010	2013	2012	2011	2010
Executive	0	0	0	0	0.000	0.000	0.000	0.000
Proprietary	0	0	0	0	0.000	0.000	0.000	0.000
Independent	1	1	1	1	16.670	16.670	16.670	16.670
Other externals	0	0	0	0	0.000	0.000	0.000	0.000
total	1	1	1	1	9.090	8.330	8.330	8.330

C.1.5 Explain the measures, if any, that have been adopted to try to include a number of female directors on the board that would mean a balanced presence of men and women.

The Board of Directors of Tubacex SA in 2009 adopted appropriate measures to encourage the incorporation of women in the Board of Directors entrusted the Nominating and Compensation Committee to include prestigious candidates in the selection process and to ensure specially for gender equality.

C.1.6 When, despite the measures taken, there are few or no female directors, explain the reasons: Explanation of reasons

The Nomination and Remuneration Committee has expressly delegated the responsibility of ensuring equality and promoting the integration of women in the Board of Directors.

C.1.7 Explain how shareholders with significant holdings are represented on the Board

The significant shareholders are proportionally represented in the Board of Directors in relation to the distribution of social capital. At the end of 2013 the representatives of significant shareholdings were three and they represented more than 22% of the share capital.

C.1.8. Describe, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 5% of share capital.

State whether formal petitions for presence on the Board have been received from shareholders whose shareholding interest is equal to or greater than that of others at

whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been satisfied.

NO

C.1.9. State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the Board and by what means, and in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the director:

Name ATALAYA INVERSIONES S.R.L

Reason Sale of share capital

Name GRUPO CORPORATIVO EMPRESARIAL CAJA DE AHORROS Y MONTE DE PIEDAD DE NAVARRA SAU

Reason Sale of share capital

C.1.10. Indicate the powers delegated to the CEO(s), if any:

**Individual or corporate name of director**

MR. JESUS ESMORIS ESMORIS

**Brief description**

The CEO has all the powers of the Board except those that those than cannot be delegated.

C.1.11. Identify the directors who are managers or directors of companies within the listed company's group, if any:

Individual or corporate name of director	Corporate name of entity within the group	Position
Mr. ÁLVARO VIDEGAIN MURO	ACERÍA DE ÁLAVA. S.A.	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	COMERCIAL DE TUBOS Y ACCESORIOS ESPECIALES, S.A.	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	METAUX INOX SERVICES, SAS	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	SALEM TUBE, INC	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	SCHOELLER BLECKMANN EDELSTAHLROHR, GmbH	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	TUBACEX TAYLOR ACCESORIOS, S.A.	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	TUBACEX TUBOS INOXIDABLES, S.A.	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	TUBOS MECÁNICOS, S.A.	PRESIDENT
Mr. ÁLVARO VIDEGAIN MURO	TUBOS MECÁNICOS NORTE, S.A.	PRESIDENT
Mr. JUAN ANTONIO GARTEIZGOGUEASCOA IGUAIN	TUBACEX TUBOS INOXIDABLES, S.A.	BOARD MEMBER
Mr. JUAN ANTONIO GARTEIZGOGUEASCOA IGUAIN	SALEM TUBE INC	BOARD MEMBER
Mr. JUAN ANTONIO GARTEIZGOGUEASCOA	TUBACEX AMERICA HOLDING	BOARD MEMBER

IGUAIN		
Mr.IGNACIO MARCO-GARDOQUI IBAÑEZ	TUBACEX TUBOS INOXIDABLES, S.A.	BOARD MEMBER
Mr.IGNACIO MARCO-GARDOQUI IBAÑEZ	SALEM TUBE INC	BOARD MEMBER
Mr.IGNACIO MARCO-GARDOQUI IBAÑEZ	TUBACEX AMERICA HOLDING CO	BOARD MEMBER
Mr. JESUS ESMORIS ESMORIS	ACERÍA DE ÁLAVA. S.A.	CEO
Mr. JESUS ESMORIS ESMORIS	COMERCIAL DE TUBOS Y ACCESORIOS ESPECIALES, S.A.	CEO
Mr. JESUS ESMORIS ESMORIS	METAUX INOX SERVICES, SAS	BOARD MEMBER
Mr. JESUS ESMORIS ESMORIS	SALEM TUBE, INC	BOARD MEMBER
Mr. JESUS ESMORIS ESMORIS	SCHOELLER BLECKMANN EDELSTAHLROHR, GmbH	BOARD MEMBER
Mr. JESUS ESMORIS ESMORIS	TUBACEX TAYLOR ACCESORIOS, S.A.	CEO
Mr. JESUS ESMORIS ESMORIS	TUBACEX TUBOS INOXIDABLES, S.A.	CEO
Mr. JESUS ESMORIS ESMORIS	TUBOS MECÁNICOS, S.A.	BOARD MEMBER
Mr. JESUS ESMORIS ESMORIS	TUBOS MECÁNICOS NORTE, S.A.	BOARD MEMBER
Mr. JESUS ESMORIS ESMORIS	TUBACEX SERVICES S.L.	PRESIDEN – CEO

C.1.12. Identify the directors of your company, if any, who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your Group, that have been reported to your company:

Individual or corporate name of director	Listed company	Position
Mr. ALVARO VIDEGAIN MURO	ADVEO GROUP INTERNATIONAL S.A.	BOARD MEMBER
Mr. ANTONIO GONZALEZ ADALID GARCIA ZOZAYA	PAPELES Y CARTONES DE EUROPA, S.A.	BOARD MEMBER
Mr. ANTONIO GONZALEZ ADALID GARCIA ZOZAYA	CARTERA INDUSTRIAL REA, S.A.	VICEPRESIDENT-CEO
Mrs. CONSUELO CRESPO BOFILL	ACCIONA, S.A.	BOARD MEMBER
Mr. ANTONIO GONZALEZ ADALID GARCIA ZOZAYA	FLUIDRA, S.A.	BOARD MEMBER
Mr. ANTONIO GONZALEZ ADALID GARCIA ZOZAYA	GENERAL DE ALQUILER DE MAQUINARIA, S.A.	BOARD MEMBER
Mr. ANTONIO GONZALEZ ADALID GARCIA ZOZAYA	MECALUX, S.A.	BOARD MEMBER
Mr. IGANCIO MARCO-GARDOQUI IBAÑEZ	VISCOFAN, S.A.	BOARD MEMBER
Mr. JUAN JOSÉ IRIBECAMPOS ZUBIA	TUBOS REUNIDOS, S.A.	BOARD MEMBER
Mr. XABIER DE IRALA ESTEVEZ	IBERDROLA, S.A.	BOARD MEMBER

C.1.13. Indicate and, if applicable, explain whether the Company has established rules regarding the number of boards of which its directors may be members:

YES

Description of rules
Article 28 of the Code of Conduct for the Board of Directors stipulates that in order to guarantee the dedication of board members, the Code of Conduct for the Board of Directors establishes that they can only belong to a maximum of five boards, and must request permission from the Appointments and Remunerations Committee to be able to exceed this limitation. For this purpose, the Boards of Directors of Group subsidiary companies or similarly operating structures will not be counted.

C.1.14. In connection with recommendation number 8 of the Unified Code, indicate the Company's general policies and strategies reserved for approval by the full Board:

The investment and financing policy	YES
The definition of the structure of the group of companies	YES
The corporate governance policy	YES
The corporate social responsibility policy	YES
The strategic or business plan, as well as management objectives and annual budgets	YES
The policy regarding compensation and evaluation of performance of senior management	YES
The risk control and management policy, as well as the periodic monitoring of the internal information and control systems	YES
The dividend policy, as well the treasury stock policy and, especially, the limits thereto	YES

C.1.15. Complete the following tables regarding the aggregate compensation of Directors accrued during the fiscal year:

Compensation of directors ( in thousands of Euros)	1,595
Amount of overall remuneration corresponding to the rights accumulated by directors with respect to pensions (in thousands of Euros)	28
Overall compensation of directors (in thousands of Euros)	1,623

C.1.16. Identify the members of the Company's senior management who are not executive directors and state the total compensation accruing to them during the fiscal year:

Individual or corporate name	Position
Mr. GUILLERMO RUIZ-LONGARTE PÉREZ	CHIEF OPERATING OFFICER
Mr. ANTON AZLOR VILLA	VICE PRESIDENT SALES & MARKETING
Mr. MANUEL SARABIA FIGUEROA	HUMAN RESOURCES MANAGER & CHIEF OPERATING OFFICER'S ASSISTANT
Mr. PEDRO CARBAJO GÓMEZ	PURCHASING AND PROCUREMENT MANAGER – GENERAL MANAGER OF COTUBES, S.A.
Mr. CELESTINO DANIS BASURKO	SPAIN OPERATIONS MANAGER
Mr. WERNER HORVATH	GENERAL MANAGER OF SBER GmbH
Mr. DIEGO HERRERO DE LA TORRE	INNOVATION MANAGER
Mr. GONZALO GÓMEZ ARRUE	GENERAL MANAGER OF TUBOS MECÁNICOS S.A.
Mr. RUFINO ORCE ZUAZU	GENERAL MANAGER OF SALEM TUBE INC.
Mr. MIKEL LAZARO AGUIRRE	GENERAL MANAGER OF TTA S.A.
Mr. ERICH HERTNER	GENERAL MANAGER OF SBER GmbH
Mr. PAUL DEGENFELD	GENERAL MANAGER OF SBER GmbH
Mr. JUAN ANTONIO GARCIA	GENERAL MANAGER OF SBER GmbH



Total senior management compensation (in thousands of Euros)	2,909
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C.1.17. Indicate the identity of the members of the Board of Directors, if any, who are also members of the board of directors, managers or employees of companies that hold a significant interest in the listed company and/or in companies within its Group:

Individual or corporate name of director	Individual or corporate name of significant shareholder	Position
Mr. ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	CARTERA INDUSTRIAL REA, S.A.	VICEPRESIDENT AND CEO

C.1.18. State whether the Regulations of the Board of Directors have been amended during the fiscal year:

YES

The Regulations of the Board of Directors was modified to adapt to the revised text of the Companies Act and other technical improvements of the texts.

C.1.19. Indicate the procedures for the appointment, re-election, evaluation and removal of Directors. List the competent bodies, the procedures to be followed and the criteria applied in each of such procedures.

### **Appointment of Board members**

Board members shall be appointed directly by the AGM or by proposal from the Board of Directors in accordance with the provisions stipulated in the Joint Stock Company Act. Appointment proposals should be preceded by the corresponding proposal from the Appointments and Remunerations Committee.

The Board of Directors and the Appointments and Remunerations Committee, within the remit of their authority, shall endeavor to ensure that persons of trustworthiness, ability and experience appoint the candidates, making sure that the procedure for appointing independent board members is highly rigorous.

The Board will try to ensure that independent Board members account for at least sixty percent of its total members at all times, thereby ratifying the Company's historical policy of having a professional and mostly independent Board.

The Board of Directors may not propose or appoint persons to the post of independent board member who have any relationship with the company's management or who are found to have family, professional or commercial links to the executive directors or to other members of the company's senior management.

In particular, the following persons may not be proposed or appointed as independent board members: persons who hold or have held executive positions in the Company in the last two years; persons who are or have been partners in the external auditor of the Company or any Group company in the last three years; family members of anyone who is or has been an executive director or senior manager in the Company in the last two years; persons who have or have had an important business relationship with the Company on his/her own behalf or through a company in which he/she has a significant stake in the last year; persons, who directly or indirectly, through companies in which they have a significant stake, have made donations to or have received payments from the Company in the last three years that might compromise their independence; persons who have other relationships with the Company that, in the opinion of the Appointments and Remunerations Committee, could affect their independence; persons who have not been proposed for appointment or renewal by the Appointments and Remunerations Committee.

### **Reappointment of Board members**

Proposals for the reappointment of Board members that the Board of Directors decides to submit to the AGM are subject to a formal process. A report issued by the Appointments and Remunerations Committee will be an essential part of this process and will evaluate the quality of work and commitment to the post of the Board members proposed during the previous term of office.

The Board of Directors shall try to organize the work in a way that the external Board members who are reappointed are not always assigned to the same committee.

### **Term of office**

Board members shall carry out their duties for a maximum period of six years and can be reappointed for the same length of time. A person cannot be appointed to the Board if aged 65 or over at the time of proposal.

Board members designated for co-option shall carry out their duties until the date of the first AGM that ratifies their appointment.

Board members who come to the end of their term of office or for whatever other reason finish in their post, shall not be able to work for any other entity whose corporate purpose is similar to that of the Company's for a period of two years.

The Board of Directors, if it considers appropriate, can exempt the outgoing member from this obligation or shorten its length of application.

**C.1.20. Indicate whether the board has evaluated its performance during the year:**

YES

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organization and the procedures applicable to its activities: Description of amendments Self-assessment.

Since 1999 the Board of Directors has been conducting regular annual assessments of the President and since 2002 self-assessment of their own actions. At least one of the meetings of the Board aims to assessment of the work of the President and CEO as well as the Board and its committees. The session concerning the financial year 2013 will be held in the second quarter of 2014. With the conclusions an annual plan of action is established.

**C.1.21. Indicate the circumstances under which the resignation of Directors is mandatory.**

Board members should offer their resignations to the Board of Directors and should formalize, if the Board deems it appropriate, their corresponding resignation in the following cases:

- a) When the term of office concludes after having reached 65 years of age.
- b) When the executive positions to which their appointments were associated finish.
- c) When they are found to be involved in any of the incompatible or banned situations previously mentioned.
- d) When they are prosecuted for a supposedly criminal event or when the supervising authorities decide that they are responsible for a serious or very serious misconduct.
- e) When the Audit and Compliance Committee seriously caution them for having broken their obligations as Board members.
- f) When their presence on the Board might jeopardize the interests of the company or when the reasons for which they were appointed disappear

**C.1.22 Explain whether the powers of the chief executive of the Company are vested in the Chairman of the Board. If so, indicate the measures that have been taken to mitigate the risks of accumulation of powers in a single person:**

YES

Indicate and, if applicable, explain whether rules have been established whereby one of the independent directors is authorized to request that a meeting of the Board be called or that other items be included on the agenda, to coordinate and hear the concerns of external directors and to direct the evaluation by the Board of Directors.

<b>Description of the rules</b>
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The duty of the Deputy Chair is to replace the Chairman in case of absence or illness.
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The Deputy Chair must be designated from among the independent Board members and will be authorized to request any information, as well as to call the Board of Directors so as to hold meetings.
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C.1.23. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

NO

Describe the method used by the Board of Directors to adopt resolutions, including at least the minimum quorum required to hold a valid meeting and the majorities required to adopt resolutions

C.1.24. Explain whether there are specific requirements, other than the requirements relating to Directors, to be appointed Chairman.

NO

C.1.25. Indicate whether the Chairman has a tie-breaking vote.

YES

<b>Matters on which a tie-breaking vote may be cast</b>
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If there is a tie, the Chairman's vote shall be the casting vote.
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C.1.26. Indicate whether the bylaws or the Regulations of the Board of Directors set forth any age limit for directors:

YES

Age limit for the Chairman: 65

Age limit for the CEO: 65

Age limit for Directors: 65

C.1.27. Indicate whether the bylaws or the Regulations of the Board of Directors establish any limit on the term of office for independent directors:

NO

C.1.28. Indicate whether the bylaws or the Board Regulations establish specific standards for proxy voting in the Board of Directors, how to do it and, in particular, the maximum number of proxies a director may have, and whether it is mandatory to grant proxy to a director of the same type. If so, briefly give details on such standards

Article 18.1 of the Regulations of the Board of Directors provides that directors shall make every effort to attend the meetings of the Board of Directors and, if they cannot do it personally, they shall ensure that the representation granted in another member of the Council to respond to another in the same group and includes the appropriate instructions.

C.1.29. Indicate the number of meetings that the Board of Directors has held during the fiscal year. In addition, specify the number of meetings, if any, at which the Chairman was not in attendance:

Number of meetings of the Board	10
Number of meetings of the Board at which the Chairman was not in attendance	0

Indicate the number of meetings held by the different committees of the Board of Directors during the fiscal year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Compliance Committee	2
Number of meetings of the Nominating and Compensation Committee	3

C.1.30. Indicate the number of meetings held by the Board of Directors during the fiscal year at which not all of its members have been in attendance. Proxies granted without specific instructions must be counted as absences:

Number of attendances of directors during the fiscal year	100
% of absences over total votes during the fiscal year	100,00

C.1.31. Indicate whether the annual individual financial statements and the annual consolidated financial statements that are submitted to the Board of Directors for approval have been previously certified:

NO

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated financial statements of the Company for preparation by the Board:

C.1.32. Explain the mechanisms, if any, adopted by the Board of Directors to avoid any qualifications in the audit report on the annual individual and consolidated financial statements prepared by the Board of Directors and submitted to the General Shareholders' Meeting.

Without affecting the other tasks assigned by the Board, the Audit and Compliance Committee has the following basic responsibilities:

- a) Review the company's accounts, monitor compliance with legal requirements and the correct application of generally accepted accounting principles, as well as report on proposals for the modification of accounting principles and criteria suggested by management.
- b) Act as a communication channel between the Board of Directors and the auditors; assess the results of each audit and the management team's response to the recommendations. If discrepancies arise, mediate between the auditors and the management team in relation to the principles and criteria applicable in the preparation of financial statements.
- c) Supervise compliance of the audit contract and ensure that opinions on the annual accounts and the main points of the audit report are written clearly and precisely.

C.1.33. Is the Secretary of the Board of Directors a Director?

NO

C.1.34. Describe the procedures for appointment and removal of the Secretary of the Board, stating whether the appointment and removal thereof have been reported upon by the Appointments Committee and approved by the full Board.

**Procedure for appointment and removal**

The Board of Directors will appoint a secretary, who does not necessarily need to be a Board member. Both the appointment and the dismissal of the Secretary must be notified by the Appointments and Remunerations Committee and approved in a plenary session by the Board. The secretary shall assist the Chairman in his/her work and shall ensure that the Board operates effectively, taking charge in particular of providing the Board members with advice and necessary information, looking after company documents, reflecting the development of the sessions correctly in the minutes and witnessing the Board's agreements (Article 12 of the Regulations of the Board).

Does the Appointments Committee report on the appointment?	YES
Does the Appointments Committee report on the removal?	YES
Does the full Board approve the appointment?	YES
Does the full Board approve the removal?	YES

Is the secretary of the Board especially responsible for ensuring compliance with good governance recommendations?

YES

C.1.35. Indicate the mechanisms, if any, used by the Company to preserve the independence of the auditors, the financial analysts, the investment banks and the rating agencies.

Articles 15.4 and 41 of the Code of Conduct for the Board of Directors contemplate the grounds for action in this sense, both of the Audit and Compliance Committee and of the Board of Directors itself, aimed at preserving the independence of the auditor and transparency in relations with analysts and financial institutions.

C.1.36. Indicate whether the Company has changed the external auditor during the fiscal year. If so, identify the incoming and the outgoing auditor:

NO

C.1.37. Indicate whether the audit firm performs other non-audit work for the Company and/or its Group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the Company and/or its Group.

YES

	<b>Company</b>	<b>Group</b>	<b>Total</b>
Amount of other non-audit work (thousands of Euros)	57	0	57
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	13.730	0.000	13.730

C.1.38. State whether the audit report on the Annual Financial Statements for the prior fiscal year has observations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of such observations or qualifications.

NO

C.1.39. Indicate the consecutive number of years for which the current audit firm has been auditing the annual financial statements of the Company and/or its Group. In addition, state the percentage represented by such number of years with respect to the total number of years in which the annual financial statements have been audited:

	<b>Company</b>	<b>Group</b>
Number of consecutive years	2	2

	<b>Company</b>	<b>Group</b>
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	6.060	6.250

C.1.40. Indicate the interests of members of the Board of Directors in the share capital of companies that engage in the same, similar or complementary activities, both with respect to the company and its group, and which have been reported to the company. In addition, state the position or duties of such Directors in such companies:

YES



Description of procedure
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Article 25 of the Code of Conduct for the Board of Directors confers the fullest powers to directors to gather information concerning any aspect of the Company. Any requests for information shall be channeled through the President or Secretary who will attend them. This procedure will be the same for internal information and for external advisory if Directors saw it necessary.
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C.1.41. Indicate whether there is any procedure for Directors to hire external advisory services, and if so, describe it:

Article 25 provides the fullest powers to directors of information on any aspect of the company. Such requests must be channeled through the Chairman or Secretary.

C.1.42. Indicate whether there is any procedure for Directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

YES

Description of procedure
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Regarding the reporting duties of the Director, Article 36 of the Regulation provides that the Directors also must inform the Company of all positions held and activities carried out in other companies or entities, and, in general, of any fact or event that may be relevant to their performance as of society.
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C.1.43. State whether the Company has established any rules requiring Directors to inform the Company —and, if applicable, resign from their position— in cases in which the credit and reputation of the Company may be damaged.

NO

Description of rules
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As regards the directors' obligation to inform, Article 36 of the Code of Conduct establishes that directors must also inform the company of all posts that they hold and the activities that they carry out in other companies or entities and, in general, of any event or situation that could be relevant in their role as company director.
--

Indicate whether the board of directors has analyzed the case. If so, explain the grounds for the decision taken as to whether or not the director should retain his/her directorship or, where applicable, describe the actions taken or planned to be taken by the Board of Directors on the date of this report.

C.1.44. Detail significant agreements reached by the Company that come into force, are amended or concluded in the event of a change in the control of the company stemming from a public takeover bid, and their effects.

None.

C.1.45. Identify, on an aggregate basis, if there are indemnity or guarantee or protection clauses for the benefit of senior management, including executive directors, of the Company or its Group in the event of dismissals or changes of control. Indicate whether such agreements must be reported to and/or approved by the decision-making bodies of the Company or its Group:

Number of beneficiaries: 2

Type: Chairman and CEO

	<b>Board of Directors</b>	<b>Shareholders (at the General Shareholders' Meeting)</b>
Decision-making body approving the provisions	YES	NO

## C.2. Committees of the Board of Directors

C.2.1. List all the committees of the Board of Directors and the members thereof:

### STRATEGY AND INVESTMENTS COMMITTEE

<b>Name</b>	<b>Position</b>	<b>Class</b>
Mr. ÁLVARO VIDEGAIN MURO	PRESIDENT	EXECUTIVE
Mr. ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	MEMBER	PROPIETARY
Mr. JUAN ANTONIO GARTEIZGOEASCOA IGUAIN	MEMBER	INDEPENDENT
BAGOETA, S.L.	MEMBER	PROPIETARY

% executive directors	25.000
% proprietary directors	50.000
% independent directors	0.000
% other external directors	25.000

## APPOINTMENTS AND REMUNERATIONS COMMITTEE

Name	Position	Class
Mr. JUAN RAMÓN GUEVARA SALETA	PRESIDENT	INDEPENDENT
Mr. GERARDO ARÓSTEGUI GÓMEZ	MEMBER	INDEPENDENT
Mr. JUAN JOSE IRIBECAMPOS ZUBIA	MEMBER	PROPRIETARY
Mr. IGNACIO MARCO GARDOQUI IBAÑEZ	MEMBER	INDEPENDENT

% executive directors	0.000
% proprietary directors	25.000
% independent directors	75.000
% other external directors	0.000

## AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Class
Mr. JUAN ANTONIO GARTEIZGOGEASCOA IGUAIN	PRESIDENT	INDEPENDENT
Mrs. CONSUELO CRESPO BOFILL	MEMBER	INDEPENDENT
Mr. XABIER IRALA ESTÉVEZ	MEMBER	INDEPENDENT

% executive directors	0.000
% proprietary directors	0.000
% independent directors	100.000
% other external directors	0.000

C.2.2. Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors							
	2013 year		2012 year		2011 year		2010 year	
	NUMBER	%	number	%	number	%	number	%
STRATEGY AND INVESTMENTS COMMITTEE	0	0.000	0	0.000	0	0.000	0	0.000
APPOINTMENTS AND REMUNERATIONS COMMITTEE	0	0.000	0	0.000	0	0.000	0	0.000
AUDIT AND COMPLIANCE COMMITTEE	1	33.330	1	33.330	1	33.330	1	33.330
EXECUTIVE COMMITTEE	0	0.000	0	0.000	0	0.000	0	0.000

C.2.3. State whether the Audit Committee has the following duties:

Supervise the process of preparation and the integrity of the financial information relating to the Company and, if applicable, to the Group, monitoring compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting principles.	YES
Periodically review the internal control and risk management systems, in order for the main risks to be properly identified, managed and made known.	YES
Ensure the independence and effectiveness of the internal audit area; make proposals regarding the selection, appointment, re-election and withdrawal of the	YES

head of the internal audit area; propose the budget for such area; receive periodic information regarding its activities; and verify that senior management takes into account the conclusions and recommendations contained in its reports.	
Establish and supervise a mechanism whereby the employees may give notice, on a confidential basis and, if deemed appropriate, anonymously, of any potentially significant irregularities, especially of a financial and accounting nature, that they notice at the Company.	YES
Submit to the Board proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the contractual terms under which it should be hired.	YES
Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account.	YES
Ensure the independence of the external auditor.	YES
In the case of groups of companies, favor the auditor of the group as the auditor responsible for audit work at the companies that form part thereof.	YES

**C.2.4. Describe the rules of organization and operation of, and the duties assigned to each of the Board committees.**

The functioning of the Board of Directors and their committees is regulated in accordance with the Social and Regulation of the Board Bylaws. Each of the committees has delegated one explicit skill set by the Board of Directors and the obligation to report for approval and raise the proposals for the various materials.

**C.2.5. Indicate, if applicable, the existence of regulations of the Board committees, where such regulations may be consulted and the amendments made during the fiscal year. Also indicate if any annual report of the activities performed by each committee has been voluntarily prepared.**

The Board Committees are governed by the Regulations of the Board of Directors. Activity is evaluated annually developed by the Board as well as the different committees.

**C.2.6. Indicate whether the composition of the Executive Committee reflects the participation of the different directors in the Board of Directors based on their category:**

NO

<b>If no, explain the composition of your Executive Committee</b>
It does not exist Executive Committee

## D. RELATED-PARTY TRANSACTIONS

D.1. Identify the competent body and explain the procedure, if any, for approving related parties and intra-group transactions.

Competent body for approving related-party transactions

The Board of Directors previously informed by Audit and Compliance Committee

Procedure for approving related-party transactions

Article 34 of Regulation Board stipulates:

1.- Board members or their relatives may not receive personal benefit from a business opportunity in the company unless this is previously offered to the company and the company refuses to exploit it and the benefit is authorized by the Board, after a report by the Audit and Compliance Committee is issued.

2.- For the purposes described in the previous section, a business opportunity is understood as any possibility to make an investment or commercial transaction which may arise or may have been detected in relation to the performance of the post by board members or through the use of the company resources and information or under circumstances which may reasonably lead to believe that the third party offer was in fact aimed at the Company.

State whether the approval of related-party transactions has been delegated, indicating the body or parties in which said approval has been delegated, if any.

The approval of related party transactions and all those involving conflict of interest must be approved by the Board of Directors.

D.2. Detail any significant transactions, entailing a transfer of a significant amount or obligations between the company or its group companies, and the company's significant shareholders

D.3. Detail any significant transactions entailing a transfer of a significant amount or obligations between the company or its group companies, and the directors and/or senior managers:

Individual or corporate name of directors or managers	Individual or corporate name of the Company or entity within its Group	Nature of transaction	Type of transaction	Amount (in thousands of Euros)
Mr. ÁLVARO VIDEGAIN MURO	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	112
Mr. JESUS ESMORIS ESMORIS	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	77
Mr. ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	107
ATALAYA INVERSIONES, S.R.L.	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	30
Mr. GERARDO ARÓSTEGUI GÓMEZ	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	107
GRUPO CORPORATIVO EMPRESARIAL DE LA CAJA DE AHORROS Y MONTE DE PIEDAD DE NAVARRA SAU	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	41
Mr. JUAN ANTONIO GARTEIZGOGUEASCOA IGUAIN	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	110
Mr. JUAN JOSÉ IRIBECAMPOS ZUBIA	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	107
Mr. JUAN RAMÓN GUEVARA SALETA	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	112
Mr. LUIS MARIA URIBARREN	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	104
Mr. MANUEL GUASCH MOLINS	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	13
Mrs. CONSUELO CRESPO BOFILL	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	107
Mr. IGNACIO MARCO GARDOQUI IBAÑEZ	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	107
Mr. XABIER DE IRALA ESTÉVEZ	TUBACEX, S.A.	REMUNERATIONS	Engaged commitments	31

D.4. Detail the significant transactions in which the company has engaged with other companies belonging to the same group, except those that are eliminated in the process of drawing up the consolidated financial statements and that do not form part of the company's habitual traffic with respect to its object and conditions.

In any event, provide information on any intra-group transaction with companies established in countries or territories considered tax havens:

D.5. State the amount of the transactions carried out with other related parties.

D.6. Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its directors, managers and/or significant shareholders.

Article 31 of the Code of Conduct for the Board of Directors establishes the following as regards conflict of interests:

Board members should refrain from contributing to or interfering in deliberations that affect issues in which they have a personal interest.

A Board member will also be considered to have a personal interest when the issue affects his/her spouse, direct family members, or when the issue affects a company where the Board member or the aforementioned members of his/her family holds an executive position or has a significant share in the company.

Board members shall not carry out professional nor commercial transactions with the Company, whether of direct or an indirect nature, unless they have previously reported the conflict of interests and the Board, prior to reporting the transaction to the Appointments and Remunerations Committee, approves the transaction.

#### **D.7. Is more than one company of the Group listed in Spain?**

NO

### **E. RISK CONTROL SYSTEMS**

#### **E.1 Explain the scope of the company's Risk Management System.**

TUBACEX Group has operated in a global market and as a multinational with a worldwide presence. As a result, the Group has progressively developed policies, procedures, tools and resources, both human and technological, to face up to the risks arising from its operations in this global environment. The necessary controls, both preventative and detective, have been implemented. By focusing on a continual improvement approach towards its corporate governance policies, the Group has emphasized to a greater extent the development of this process. Currently, the Group's reporting and control systems and its different business unit systems are oriented towards preventing and mitigating the potential effect of business risks.

In 2007 the Board of Directors of Tubacex decided to provide the corporate Internal Audit function with additional resources to enable it to carry out its mission effectively. Among its objectives, the Internal Audit function has been assigned the task of helping to implement a more effective risk management and control model. Consequently, one of the main starting points for the Triennial Internal Audit Plan 2008-2010 was the drawing up of new risk matrices that have been used as the basis for hierarchically carry out the tasks within this Plan.

Within the group of risks inherent to the TUBACEX activity, the Group's governance bodies, including the Board of Directors, the Audit and Compliance Committee, Corporate Finance Management, and the finance and administrative management teams in each of the business units, focus their control activity on the risks detailed in E.3.

## E.2. Identify the corporate bodies responsible for drawing up and enforcing the Risk Management System

As noted in the previous section, the Internal Audit function is tasked to assist the implementation of more effective management and risk control model. For its part, the work of risk control is done from the Board of Directors, Audit Committee, Corporate Finance Department and the finance and administrative departments in the field of each business unit.

## E.3 Indicate the main risks that could prevent business targets from being met.

Credit risk corresponding to sales made around the world. This is one of the company's most important risks as it affects the total business turnover figure. The general policy is to hedge the largest number of operations with credit insurance for which the Group has entered into a number of annual agreements in this respect. Letters of credit or sufficient collateral guarantees cover the operations not included in the aforementioned agreements. The Group's general policy is to maintain minimum levels of exposure to credit risk. This policy has given rise to historic, exceptionally low non-payment percentages.

Currency risk. The Group is exposed to currency fluctuations. There are two effects arising from product sales transactions and raw material purchasing transactions: On the one hand, there is a risk relating to the potential variation in the profit margin generated through the sale from the moment of sale to its collection and also there is another risk in the value of the products purchased in dollars, mainly raw materials. On the other hand, there is a risk related to the consolidation of results from group subsidiaries operating outside the euro zone (the closing rate method applies) whose financial statements are in dollars. The greatest exposure corresponds to US dollars, although there is also exposure in pounds sterling and Canadian dollars. The group's general policy is not to speculate with open positions, compensating inflows (collections) with outflows (payments) in foreign currency within the estimated terms; for those remaining open positions, having taken into account both the balance position and the risk taken on in the order book, exchange insurance agreements are entered into in order to mitigate the Group's exposure, always following a conservative approach.

Interest rate risk. The loans and credit accounts entered into by the group are mainly indexed to the Euribor index and to a lesser extent to the USA Libor index, based on different contract and settlement periods, thus exposing the Group's financial cost to potential variations in interest rates. The group undertakes fixed rate hedging on interest rates in order to mitigate the aforementioned exposure.

Risk of volatility in the price of raw materials. The group is exposed to variations in the price of the main raw materials used in the production of stainless steel, such as nickel,



chromium, molybdenum and stainless scrap metal, whose price is indexed mainly in accordance with the cost of nickel. The most significant effect arises from the price of nickel, whose price is listed daily on the London Metal Exchange (LME) and its impact on the cost of scrap, as well as that of chromium and molybdenum. The group's general policy is to effectively purchase raw materials relating to both steel and tube orders at a fixed price, so that they are isolated from potential fluctuations prior to their collection.

#### E.4 Identify whether the entity has a risk tolerance level.

The company has a policy of taking risks with conservative and non-speculative approach.

#### E.5 State what risks have occurred during the year.

During the year there has been no risks affecting the Company and/or its group.

#### E.6 Explain the response and supervision plans for the principal risks faced by the company.

The TUBACEX group has developed a credit risk control policy that is basically summarized in the need to have the coverage of credit insurance companies in all sales and where there is no coverage, due to country risk or other circumstances, to use secure sales methods, such as letters of credit, documentary credit or bank guarantees, which are always on an irrevocable and first demand basis or advanced payments prior to the delivery of the material. Compliance with this policy means very close credit control in all transactions, in order not to slow down commercial activity and at the same time to guarantee that clients without cover or with exceeded cover are not included. It is also important to bear in mind that given the significant volume of transactions carried out with large distributors, the TUBACEX group's degree of coverage with insurance companies is usually around 80-85% of requests.

The specific credit control tools are integrated into the Group's transactional systems and allow the dynamic and on-line analysis of current and forecasted positions of our different clients' orders. These automated systems allow the analysis of our clients' future risk development through a combination of functions such as amount invoiced, orders pending invoicing, the future collection of both and the level of risk covered by insurance companies.

As we have described in the previous chapter, the following controls are carried out in order to cover currency risk:

- Dynamic analysis (daily) of all actual and forecasted currency inflows and outflows, including both balance positions (clients and suppliers) as well as the expected future flows arising from orders and expected future payments for the purchasing of raw materials.

- Calculation of net exposure in all aforementioned periods and flow matching (implicit cover).
- Undertaking of exchange insurance in residual positions.
- In order to define the currency hedging strategies for imports and exports, an independent advisor is used who is not linked to any financial entity. Likewise, this advisor notes on-line the amounts and quotes of transactions to be carried out through the spot and forward sale and purchasing of currencies, or through variations in the exchange insurance terms.
- Based on the advisor's guidance, all transactions are quoted through different first-rate financial companies, directly buying or selling on the corresponding treasury desks at the best possible market price.

The group's general policy in this respect is to maintain the expected and generated commercial margin in each transaction and in this way no speculative action is carried out within the field of currency management.

Likewise, the fact that within the TUBACEX group there are companies outside the euro zone, mainly in the USA, means that due to the application of the "closing rate consolidation method", fluctuations in the euro/dollar quotation become a potential risk when integrating the aforementioned subsidiaries result into the Group's consolidated result.

The TUBACEX group is exposed in different ways to fluctuations in interest rates depending on whether the Group as whole or individual subsidiaries are being considered. In terms of deposits, the Group's general policy in this respect is, in any case, to not be exposed to possible fluctuations in the equities market, therefore using only interest-bearing deposits.

In terms of funding, the group opts for variable interest rate funding, using fixed rate IRS or FRAS hedging. These hedging practices are used both in long term funding positions, as well as in those funding positions renewed on a yearly basis and which as a result, have an effect on the availability of funds. The hedging policies used are based on:

- General policy of variable/fixed exposure on an approximate 80/20 basis.
- Dynamic follow up both in terms of structured funding, as well as funding levels of working capital through credit accounts or other financial instruments.
- The use of financial hedging instruments quoted in organized markets (not using OTC transactions).
- Not undertaking derivatives transactions of a speculative nature.
- The use of an independent advisor to develop the hedging strategy.
- Market trading with world-class and reputable financial companies.

Regarding the volatility in the price of raw materials the basic raw material is nickel, a metal that is listed on the "London Metal Exchange" (LME) and which has a high level of volatility due to the fact of being subjected to the tensions of supply and demand between producers and consumers, but at the same time, is also affected by the

interference of investment funds that act speculatively on the price of this material. The appearance of China as a consumer and producer of stainless steel at a world level has increased to an even greater extent this material's levels of volatility. Another material of major importance in the cost structure of raw materials is molybdenum, which will be listed in the London Metal Exchange (LME) from February 2010, a fact that we hope will provide liquidity and visibility to its price, facilitating its management and coverage. This year molybdenum has undergone a profound correction in its price, which has led to a continuous monitoring in order to minimize its impact in the Group's income statement.

## **F. SYSTEMS OF INTERNAL RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

Describe the mechanisms comprising the risk management and control systems for financial reporting (ICFR) in the entity.

### **F.1 The entity's control environment**

Inform, describing the key features of at least:

**F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR; (ii) its implementation; and (iii) its supervision.**

The responsibility for the existence and appropriate maintenance of an effective Internal Control System in regards to the Financial Reporting process, as well as its implementation and supervision, corresponds to the Audit and Compliance Committee, a department that has delegated the tasks of designing and verifying the correct implementation of the Internal Control over Financial Reporting on the Internal Audit and Risks Assessment Departments.

In this regard, the Regulations of the Board of Directors expressly includes the direction and supervision of the activity of the Internal Audit and Risks Management Department among the responsibilities of the Audit and Compliance Committee, in addition to the awareness of the financial reporting process and internal control systems of the Group.

The scope of the Internal Audit Department, in compliance with the provisions established in the "Regulatory Standard of the Tubacex Group Internal Audit Function", is the assessment and evaluation of the effectiveness and appropriateness of the internal control system in Tubacex Group, ensuring the reliability and integrity of financial reporting and management, and the criteria and systems used to identify, measure, classify and communicate this information, among other matters.

**F.1.2. Whether, especially in the process of drawing up the financial information, the following elements exist:**

Departments and/or mechanisms responsible for: (i) the design and review of the organizational structure; (ii) the clear definition of lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) ensuring that sufficient procedures exist for their correct dissemination within the entity.

The Group has a unique organizational structure, approved and disclosed in the Group's Website.

Each business unit has its own organizational structure that has been properly documented, formalized and disclosed by each Human Resources department and approved by each General Manager. The organizational structure includes, generically, the scope and responsibility of each department and its members.

As regards the scope of the Internal Control over Financial Reporting, in 2011 the Group identified the main controls established in the most important companies in the Basque Country, to manage in a timely manner and mitigate to a reasonable level the main risks associated with the financial reporting generation process and issuance, as well as those persons responsible for the effective implementation of each of these controls. Among 2013 has continued with this process, which has been directed by the Internal Audit and Corporate Risks Management Department, that has been supported by the Corporate Finance Department and overseen by the Audit and Compliance Committee

Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether specific mention is made of recording the transactions and drawing up of the financial information), body in charge of analyzing non-compliance and proposing corrective measures and sanctions.

The Group has a "Internal Rules of Conduct in the scope of the Securities Markets" (hereinafter, the Regulation), which was approved by the Board of Directors in 2004 that sets out the principles that should govern the behavior of members of the Board of Directors and Senior Management TUBACEX, S.A. and Group companies. This Regulation is posted on the Spanish Securities Exchange Commission (CNMV) Website. In order to verify the adherence of persons subjected to it, the Control and Supervision Department keeps an updated list of these people.

In this regard, among other things, the regulation establishes that "the content of the communication [of relevant information to the Spanish Securities Exchange Commission (CNMV)] must be truthful, clear, and complete and, where required by the nature of the information, quantified, so that it does not lead to confusion or deception."

The regulation defines relevant information as "all information, the knowledge of which may reasonably affect an investor to acquire or transfer the securities and instruments affected by the Regulation [the securities issued by the Company and/or

any of its group companies that are traded in a market or organized trading system, and financial instruments and contracts of any kind which grant the right to acquire the aforementioned instruments], and therefore may have a significant influence on their quotation on a secondary market”.

The department responsible for monitoring compliance with the provisions of the Regulation is Tubacex, S.A. Control and Monitoring Department.

In 2013 the Board of Directors adopted a Code of Conduct which reflected the standards of behavior due to all internal and external reviewers Tubacex Group.

A whistle-blower channel, to allow financial and accounting irregularities to be communicated to the Audit Committee, as well as possible non-compliance with the Code of Conduct and irregular activities in the organisation, reporting where applicable if this is confidential in nature.

The Code of Conduct adopted in 2013 foresees a channel for reporting unethical and unlawful conduct regulated in the Code of Conduct. This communication channel is managed by the Compliance and an ultimately by the Audit and Compliance Committee by delegation of the Board of Directors.

Periodic training and refresher courses for employees involved in preparing and revising the financial information, and in ICFR assessment, covering at least accounting standards, audit, internal control and risk management.

Each company has defined and formalized training programs. The Human Resources Departments prepare annual plans which provide for the needs of specialization and establish the training schemes for the different staff levels. These plans are submitted for approval to the General Manager of each company.

## F.2. Financial reporting risk assessment

Give information on at least:

F.2.1. The key features of the risk identification process, including error and fraud risks, with respect to:

Whether the process exists and is documented.

The Group has a documented and formalized business and operations Risks Map, which is regularly updated and provides a basis for the work of the Internal Audit Department.

Regarding the risks identifying process regarding the financial information generation and emission process, it is framed within the responsibilities of the Corporate Internal Audit Department designated by the Audit and Compliance Committee.

The risks identification process conducted throughout 2012 has, in summary, the

following characteristics:

- Analysis of the consolidated annual accounts to identify the items in the financial statements and the relevant itemization,
- Based on this information, the procedures by which transactions are processed, which ultimately are reflected in the aforementioned sections and itemizations are identified,
- Finally, we have identified and prioritized the relevant risks for each of these processes that can lead to errors in the financial information generation and disclosure processes. In this sense, each identified risk is related to one or more potential errors in the generation and disclosure of financial information processes, such as Integrity, Accuracy, Existence and Occurrence, Cut, Valuation and Presentation.

The financial information Risks Map has been submitted to the Audit and Compliance Committee for approval.

Whether the process covers all the objectives of financial reporting (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), whether the information is updated and with what frequency.

Audit and Compliance Committee by expressed delegation of the Board of Directors.

The existence of a process for identifying the consolidation perimeter, taking into account aspects including the possible existence of complex corporate structures, instrumental or special purpose vehicles.

Monthly the Secretary of the Board of Directors must report about all corporate transactions.

Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc) insofar as they impact the financial statements.

The process accepts qualitative assessments.

Which of the entity's governance bodies supervises the process.

Audit and Compliance Committee.

### F.3 Control activities

Give information on the main features, if at least the following exist:

F.3.1. Procedures for review and authorization of the financial information and the description of the ICFR, to be published on the securities markets, indicating who is responsible for it, and the documentation describing the activity and controls flows

(including those concerning risk of fraud) for the different types of transactions that may materially impact the financial statements, including the procedure for closing the accounts and the specific review of the relevant judgments, estimates, valuations and projections.

The process of preparation and review of financial information to publish in the stock market is structured on the basis of the closure and publication of annual accounts schedule, for each period of publication, established by the Corporate Finance Department. According to this schedule:

The financial statements of Tubacex, S.A., and the consolidated financial statements of Tubacex, S.A. and Subsidiaries are prepared by the Corporate Finance Department.

The financial statements are prepared and submitted to the General Director, who proceeds to review them prior to their submission to the Board of Directors.

Once the accounts are reviewed by the General Director, the annual accounts are submitted to the Board of Directors a few days before the Board Meeting so that they may review them prior to the formulation of the accounts.

Once the annual statements have been formulated by the Board of Directors, the Secretary General, upon delegation by the Secretary of the Board of Directors, proceeds to send the financial information to the Spanish Securities Exchange Commission (CNMV).

Regarding the publication of relevant information, and as described above, the Group's "Internal Code of Conduct in relation to the Stock Markets" defines what constitutes relevant information and establishes the guidelines to be followed for their distribution. Specifically, it states that "communication to the Spanish Securities Exchange Commission (CNMV) should be made prior to its dissemination by any other means and as soon as the fact is known, the decision is taken or the agreement or contract with third parties is formalized", furthermore, "The Company will also disseminate this information on their Websites". Monitoring of the compliance with these obligations is the responsibility of the Control and Monitoring Department that, together with the Corporate Finance Department, drafts the relevant information for its communication to the Spanish Securities Exchange Commission (CNMV).

Tubacex Group, and the most important companies in the Basque Country, has identified the key controls that allow for the proper management and impact mitigation, if any, of each of the risks in relation to the process of generation and issuance of the financial information identified and documented in the Group's financial information Risks Matrix. For each of these controls, the Group has identified the person responsible for their execution and the supporting evidence for its operativity that will support the internal control review tasks to be performed annually. This information has been documented and structured through the appropriate Risk-Control Matrices, which are annually reviewed in the abovementioned internal control review process.

The accounting closing process is documented in the more relevant companies in the Basque Country through an accounting checklist, which includes the major tasks to be developed in the process and the persons responsible for implementing each of these tasks. This checklist is properly completed by each of the persons involved in each accounting closing process (on a monthly basis).

With respect to procedures and controls established in relation to the relevant assessments, estimates and projections, the Group, through its Risks-Control Matrix, identifies the main risks related to these aspects, and the controls established to ensure their proper management. Specifically, we have identified the main areas exposed to the assessments and estimates, which are related to:

The assessment of the recoverable value of inventories and accounts receivables;  
The valuation of inventory is in progress and finished as well as derivative financial instruments; and

The registration of supplies of every kind, with special attention to provisions resulting from long-term obligations with the employees.

In summary, the controls established in this regard can be summarized in the clear identification of responsibilities regarding the identification of potential liabilities, the drafting of the corresponding estimates and their review.

Tubacex Group has documented processes for "Financial information reporting (scope, timing, method, etc.)", "Recognition of Income and Expenditure in Goods and Products", "Inventory" and "Obsolescence and Net Realizable Value in Stocks."

### F.3.2. Internal control procedures and policies for information systems (among others, access security, change control, their operation, operational continuity and segregation of functions) that support the relevant processes in the entity with respect to the drawing up and publication of the financial information.

The Group has formally approved and formalized procedures in the field of Information Technology, including regular analysis of the evolution of all systems, as a whole.

### F.3.3. Internal control procedures and policies designed to supervise the management of activities subcontracted to third parties, and those aspects of the valuation, calculation and assessment outsourced to independent experts, which may materially impact the financial statements.

The identification procedure of the operations from which the transactions are processed, which are ultimately reflected in the aforementioned relevant sections and itemizations, as well as the relevant risks for each of them that may result in errors during the financial information generation and issuance processes, does not include the activities outsourced to third parties that could have a material impact in the financial statements.

With respect to the valuations of financial derivatives, the Corporate Finance Department obtains the corresponding assessments from various financial institutions that provide these products. These assessments are reviewed by the Corporate Finance Department, who make their own estimates using an internally developed financial model and compare them with the results obtained by the financial institutions. In case of discrepancy, they contact the financial institutions to clarify these assessments and, obtain new assessments, if appropriate. The aforementioned financial model to value derivative financial instruments is periodically revised by an independent third party to adapt the model to regulatory changes.

Likewise, in relation to the estimated actuarial liabilities arising from the commitments of this nature undertaken by the Group, the Corporate Finance Department obtains the relevant actuarial report from an independent expert third party. This report is subject to review by the Corporate Finance Department, which submits it to timely review by the external auditor, prior to its recording in the relevant accounting entries.



## F.4 Information and communication

Give information on the main features, if at least the following exist:

F.4.1 A specific function to define and keep the accounting policies updated (accounting policy department or area) and deal with queries or conflicts stemming from their interpretation, ensuring fluent communication with those in charge of operations in the organization, and an up-to-date manual of accounting policies, communicated to the units through which the entity operates.

The responsibility of defining and maintaining the Group's accounting policies updated are attributed to the Corporate Finance Department that, for this purpose, it performs the activities below, among other tasks:

- Celebration of an annual meeting with the external auditors to update to the accounting innovations and new information itemization in annual accounts.
- Celebration of an annual meeting with financial officers and the management of the subsidiaries to transfer the major developments in terms of accounting.
- Resolution of any accounting questions that may arise within the Group companies.

F.4.2 Mechanisms to capture and prepare the financial reporting in standardized formats, for application and use by all the units of the entity or the group, that support the main financial statements and the notes, and the information detailed on ICFR.

The Group's reporting and consolidation process is the responsibility of the Corporate Finance Department and, more specifically, of the Consolidation Manager. Thus, on a monthly basis, the Consolidation Manager submits a reporting schedule to the financial and administrative managers of the Groups companies, in order to ensure reception of the information with sufficient time for the preparation of consolidated financial statements in accordance to the established schedule.

The information of the subsidiaries is reported by the same, employing a "Consolidation Reporting Package" standardized in Excel, which is sent by the Consolidation Manager. Every year, prior to sending the reporting instructions to the subsidiaries for closing the financial year, the person Responsible for Consolidation shall meet with the external auditors so that they may revise the contents of the "Consolidation Reporting Package" and that these are updated, if appropriate, in compliance with the information requirements for annual accounts.

The reporting packages received from the subsidiaries for the preparation of the Group's consolidated financial statements for the financial year are audited by external auditors. Likewise, these consolidation packages are reviewed by the Consolidation Manager.

## F.5 Supervision of the system's operation

Give information, describing the key features of at least:

F.5.1. The ICFR supervision activities carried out by the Audit Committee and whether the entity has an internal audit function whose powers include support to the Committee in its task of supervising the internal control system, including the ICFR. Likewise, give information on the scope of the ICFR assessment carried out during the year and of the procedure by which the person in charge of performing the assessment communicates its results, whether the entity has an action plan listing the possible corrective measures, and whether its impact on the financial reporting has been considered.

The responsibilities undertaken by the Audit and Compliance Committee include the regular review of the internal control and risks management systems, so that key risks are identified, managed and disclosed appropriately. Likewise, their responsibilities include the oversight of the preparation and the integrity of financial reporting, monitoring compliance with regulatory requirements, the proper delimitation of the scope of consolidation and the correct application of accounting principles.

To fulfill these functions, the Audit and Compliance Committee is supported by the Corporate Internal Audit Department, formally constituted and approved in 2007, to which it reports directly.

The activity of the Corporate Internal Audit Department within the Tubacex Group is performed in compliance with the principles and procedures defined in the "Regulations Governing Internal Audits" which provides support for the Audit Committee in their supervisory functions, by means of the periodic review of the internal control system, and providing the necessary assistance for the implementation of a management and risk control model, among other goals.

The scope of Internal Audit Department, therefore, is the examination and evaluation of the effectiveness and appropriateness of the internal control system of Tubacex Group, understood as the controls that Management has designed and implemented to ensure the reliability and integrity of financial reporting and management, and the criteria and systems used to identify, measure, classify and communicate this information, among others.

The development of these activities is structured in the annual Internal Audit Plan approved by the Audit and Compliance Committee. This Audit Plan is prepared considering the risks identified in the organization's Risks Map, so that the different risks are addressed over time. The results of the review and the suggested action plans are presented to the Audit and Compliance Committee in their quarterly meetings. The Committee approves and monitors the implementation pursuant to the suggested actions.

As regards to the Internal Control over Financial Reporting supervision tasks, the main activities developed by the Audit and Compliance Committee are the following:

Understanding the Internal Control System model in relation to the Financial Reporting (Internal Control over Financial Reporting) issuance process, suggested by the Spanish Securities Exchange Commission (CNMV), as well as reporting requirements to be included in the Annual Corporate Governance Report, and approval of the decision to adapt our Internal Control over Financial Reporting.

Understanding the Group's financial information Risks Map and the content of the Risks Control Matrices developed for the most important companies in the Basque Country.

Moreover, the Audit and Compliance Committee meets once a year with our external auditors to learn the most important aspects highlighted in the financial audit process.

Currently, the Corporate Internal Audit Department is in the process of developing the 2014 Internal Audit Plan that, among other things, aims to further progress in improving our risks management and internal control systems and, in particular, our Internal Control over Financial Reporting.

F.5.2. Whether there is a discussion procedure by which the auditor (in line with the technical auditing notes), the internal audit function and other experts can inform the senior management and the audit committee or the directors of the entity of significant weaknesses in the internal control encountered during the review processes for the annual accounts or any others within their remit. Likewise, give information of whether there is an action plan to try to correct or mitigate the weaknesses observed.

Unless there were reasons that required the implementation of extraordinary meetings, the Tubacex Group Audit and Compliance Committee meet annually with the external auditors. At that meeting they review the financial statements and analyze the weaknesses, if any, identified by the external auditors in their review process of the main business processes and general controls that are implemented in the Group as well as the suggested corrective actions suggested.

Additionally, as we described above, the Audit and Compliance Committee approves the annual Internal Audit Plan submitted by the Corporate Internal Audit Department and meets quarterly with the Head of Corporate Internal Audit who presents a report on the developed work and the suggested action plans.

## F.6 Other relevant information

### F.7 External auditors report

#### Report of Deloitte S.L.

**F.7.1 Whether the ICFR information disclosed to the markets has been submitted to review by the external auditor, in which case the entity must attach the corresponding report as an annex. Otherwise, explain the reasons why it was not.**

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

**AUDITORS' REPORT ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) OF TUBACEX, S.A. AND SUBSIDIARIES ("THE TUBACEX GROUP") FOR THE YEAR ENDED 31 DECEMBER 2013**

*To the Directors of Tubacex, S.A.:*

*In accordance with the request of the Board of Directors of Tubacex S.A. ("the Entity"), the Parent of the group to which it belongs, together with its subsidiaries ("the TUBACEX Group"), and with our proposal-letter of 15 December 2013, we have applied certain procedures to the accompanying "Information relating to the ICFR system" in the Annual Corporate Governance Report of Tubacex, S.A. for the year ended 31 December 2013, which summarizes the internal control procedures of the Entity in relation to its annual financial reporting.*

*The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying Information relating to the ICFR system.*

*It should be noted in this regard, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by the Entity in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.*

*In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the TUBACEX Group was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the TUBACEX Group's consolidated financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.*

*For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the TUBACEX Group's annual financial reporting for the year ended 31 December 2013 described in the accompanying Information relating to the ICFR system. Therefore, had we applied procedures additional to those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.*

*Also, since this special engagement does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law, approved by Legislative Royal Decree 1/2011, of 1 July, we do not express an audit opinion in the terms provided for in that Law.*

*The procedures applied were as follows:*

1. *Perusal and understanding of the information prepared by the Entity in relation to the ICFR system – disclosure information included in the directors’ report- and assessment of whether this information addresses all the information required in accordance with the minimum content described in the model Annual Corporate Governance Report established in CNMV Circular no. 5/2013, of 12 June 2013.*
2. *Questioning of personnel responsible for the drawing up of the information detailed in point 1 above: (i) to obtain an understanding of the process that goes into drawing up the information; (ii) to obtain information that permits an evaluation of whether the terminology used complies with the framework definitions; and (iii) to obtain information on whether the control procedures described are in place and functioning at the TUBACEX Group.*
3. *Review of the explanatory documents supporting the information detailed in point 1 above, including documents furnished directly to the personnel in charge of preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.*
4. *Comparison of the information detailed in point 1 above with the knowledge on the TUBACEX Group's ICFR system obtained through the procedures applied during the financial statement audit work.*
5. *Perusal of minutes of meetings of the Board of Directors, the Audit Committee and of other Group committees in order to assess the consistency between the ICFR issues addressed therein and the information detailed in point 1 above.*
6. *Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.*

*The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.*

*This report has been prepared exclusively in the framework of the requirements of Spanish Securities Market Law 24/1988, of 28 July, amended by Sustainable Economy Law 2/2011, of 4 March, and by CNMV Circular no. 5/2013, of 12 June 2013, for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.*

*DELOITTE, S.L.*

*Alberto Uribe-Echevarría Abascal  
26 February 2014*

## **G. DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED**

**Indicate the Company’s degree of conformance to the recommendations of the Unified Good Governance Code. If the company does not comply with any of such recommendations, please explain the recommendations, standards, practices or criteria applied by the company.**

1. The bylaws of listed companies do not limit the maximum number of votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of the acquisition of its shares on the market.

See sections: A.9, B.1.22, B.1.23 and E.1, E.2.

Complies

2. When both the parent company and a company controlled by it are listed companies, they both provide detailed public disclosure on:

- a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;
- b) The mechanisms in place to resolve any conflicts of interest that may arise.

See sections: C.4 and C.7

Not applicable

3. Even if not expressly required under applicable commercial laws, transactions involving a structural change of the company and, in particular, the following, are submitted to the shareholders at the General Shareholders' Meeting for approval:

- a) The transformation of listed companies into holding companies through "subsidiarization," i.e., reallocating core activities to controlled entities that were previously carried out by the company itself, even if the latter retains full ownership of the former;
- b) The acquisition or disposal of key operating assets, when it involves an actual change in the corporate purpose;
- c) Transactions whose effect is tantamount to the liquidation of the company.

Complies in part

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information to which recommendation 28 refers, are made public at the time of publication of the notice of call to the General Shareholders' Meeting.

Complies

5. Matters that are substantially independent are voted on separately at the General Shareholders' Meeting, in order to allow the shareholders to express their voting preferences separately. This rule applies, in particular:

- a) To the appointment or ratification of directors which shall be voted on individually;
- b) In the event of amendments of the bylaws, to each article or group of articles that are substantially independent of one another.

See section: E.8

## Complies

6. Companies allow split votes so financial intermediaries who are recorded as having shareholder status but act for the account of different clients can divide their votes in accordance with the instructions given by such clients.

See section: E.4

## Complies

7. The Board performs its duties with a unity of purpose and independent judgment, affording equal treatment to all shareholders in furtherance of the corporate interests, which shall be understood to mean the optimization, in a sustained fashion, of the financial value of the Company.

It likewise ensures that in its dealings with stakeholders, the Company abides by the laws and regulations, fulfils its obligations and contracts in good faith, respects the customs and good practices of the industries and territories in which it carries on its business, and upholds any other social responsibility standards to which it has voluntarily adhered.

## Complies

8. The Board assumes responsibility, as its core mission, for approving the company's strategy and the organization required to put it into practice, and to ensure that Management meets the objectives set while pursuing the company's interest and corporate purpose. As such, the full Board reserves for itself the right to approve:

- a) The company's policies and general lines of strategy, and in particular:
  - i) The strategic or business Plan as well as the management targets and annual budgets;
  - ii) The investment and financing policy;
  - iii) The design of the structure of the corporate group;
  - iv) The corporate governance policy;
  - v) The corporate social responsibility policy;
  - vi) The policy for compensation and assessment of the performance of senior managers;
  - vii) The risk control and management policy, as well as the periodic monitoring of internal information and control systems.
  - viii) The dividend policy and the policy regarding treasury stock and, especially, the limits thereto.

See sections: B.1.10, B.1.13, B.1.14 and D.3

- b) The following decisions:
  - i) At the proposal of the chief executive of the Company, the appointment and, if applicable, removal of senior managers, as well as their severance packages.

See section: B.1.14.

ii) The compensation of directors and, in the case of executive directors, the additional compensation to be paid for their executive duties and other terms of their contracts.

See section: B.1.14.

iii) The financial information that the Company must periodically make public due to its status as listed company.

iv) Investments or transactions of all kinds which are strategic in nature due to the large amount or special characteristics thereof, unless approval thereof falls upon the shareholders at the General Shareholders' Meeting.

v) The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.

c) Transactions made by the company with directors, with significant shareholders or shareholders with Board representation, or with other persons related thereto ("related-party transactions").

However, Board authorization need not be required in connection with related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
3. The amount thereof is no more than 1% of the Company's annual revenues.

It is recommended that related-party transactions only be approved by the Board upon the prior favorable report of the Audit Committee or such other committee handling the same function; and that the directors affected thereby should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes on the transaction.

It is recommended that the powers granted herein to the Board are conferred without the power of delegation, except for those mentioned under b) and c) above, which may, for urgent reasons, be adopted by the Executive Committee subject to subsequent ratification by the full Board.

See sections: C.1 and C.6

Complies

9. In order to operate effectively and in a participatory manner, the Board ideally is comprised of no fewer than five and no more than fifteen members.

See section: B.1.1

Complies

10. External directors, proprietary and independent, occupy an ample majority of the Board and the number of executive directors is the minimum necessary number,



bearing in mind the complexity of the corporate group and the percentage interest held by the executive directors in the Company's share capital.

See sections: A.2, A.3, B.1.3 and B.1.14.

Complies

11. Among external directors, the relation between the number of proprietary directors and independent directors reflects the proportion existing between the share capital of the company represented by proprietary directors and the rest of its capital. This strict proportionality standard can be relaxed so that the weight of proprietary directors is greater than would correspond to the total percentage of the share capital that they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold as significant, but there are shareholders holding interests with a high absolute value.
2. In companies with a plurality of shareholders represented on the Board but not otherwise related.

See sections: B.1.3, A.2 and A.3

Complies

12. The number of independent directors represents at least one-third of the total number of directors.

See section: B.1.3

Complies

13. The status of each director is explained by the Board at the General Shareholders' Meeting at which the shareholders are to make or ratify their appointment and that such status is confirmed or reviewed, as the case may be, annually in the Annual Corporate Governance Report, after verification by the Nominating Committee. Said report also discloses the reasons for the appointment of proprietary directors at the proposal of shareholders controlling less than 5% of the share capital, as well as the reasons for not having accommodated formal petitions, if any, for presence on the Board from shareholders whose equity stake is equal to or greater than that of others at whose proposal proprietary directors have been appointed.

See sections: B.1.3 and B.1.4

Complies

14. When women directors are few or non-existent, the Board explains the reasons for this situation and the measures taken to correct it; and in particular, the Nominating Committee takes steps to ensure that, when new vacancies are filled:

- a) Selection procedures do not have an implied bias that hinders the selection of women directors;

b) The company deliberately looks for women with the target professional profile and includes them among the potential candidates.

See sections: B.1.2, B.1.27 and B.2.3.

Complies

15. The Chairman, as the person responsible for the effective operation of the Board, ensures that directors receive adequate information in advance of Board meetings; promotes debate and the active involvement of directors during Board meetings; safeguards their rights to freely take a position and express their opinion; and, working with the chairmen of the appropriate committees, organizes and coordinates regular evaluations of the Board and, where appropriate, the Chief Executive Officer.

See section: B.1.42

Complies

16. When the Chairman of the Board is also the chief executive of the company, one of the independent directors is authorized to request the calling of a Board meeting or the inclusion of new business on the agenda; to coordinate and hear the concerns of external directors; and to lead the Board's evaluation of the Chairman.

See section: B.1.21

Not applicable

17. The Secretary of the Board takes particular care to ensure that the Board's actions:

- a) Adjust to the letter and the spirit of laws and their implementing regulations, including those approved by the regulatory authorities;
- b) Comply with the company's bylaws and the Regulations for the General Shareholders' Meeting, the Regulations of the Board and other regulations of the company;
- c) Are informed by those good governance recommendations included in this Unified Code as the company has subscribed to.

And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his appointment and removal are reported by the Nominating Committee and approved by the full Board; and that such appointment and removal procedures are set forth in the Regulations of the Board.

See section: B.1.34

Complies

18. The Board meets with the frequency required to perform its duties efficiently, in accordance with the calendar and agendas set at the beginning of the fiscal year, and that each Director is entitled to propose items of the agenda that were not originally included therein.

See section: B.1.29

Complies

19. Directors' absences are limited to unavoidable cases and quantified in the Annual Corporate Governance Report. And when there is no choice but to grant a proxy, it is granted with instructions.

See sections: B.1.28 and B.1.30

Complies

20. When directors or the Secretary express concerns about a proposal or, in the case of the directors, regarding the running of the company, and such concerns have not been resolved at a Board meeting, such concerns are recorded in the minutes at the request of the person expressing them.

Complies

21. The full Board evaluates the following on a yearly basis:

- a) The quality and efficiency of the Board's operation;
- b) On the basis of a report submitted to it by the Nominating Committee, how well the Chairman and chief executive of the company have carried out their duties;
- c) The performance of its Committees, on the basis of the reports furnished by them.

See section: B.1.19

Complies

22. All directors are able to exercise the right to request any additional information they require on matters within the Board's competence. Unless the bylaws or the Regulations of the Board provide otherwise, such requests are addressed to the Chairman or the Secretary of the Board.

See section: B.1.42

Complies

23. All directors are entitled to call on the company for the advice they need to carry out their duties. The company provides suitable channels for the exercise of this right, which, in special circumstances, may include external advice at the company's expense.

See section: B.1.41

Complies

24. Companies organize induction programs for new Directors to rapidly and adequately acquaint them with the Company and its corporate governance rules. Directors are also offered refresher training programs when circumstances so advise.

### Complies

25. Companies require that directors devote sufficient time and effort to perform their duties efficiently, and, as such:

- a) Directors apprise the Nominating Committee of their other professional duties, in case they might detract from the necessary dedication;
- b) Companies lay down rules about the number of boards on which their directors may sit.

See sections: B.1.8, B.1.9 and B.1.17

### Complies

26. The proposal for the appointment or re-election of directors that the Board submits to the shareholders at the General Shareholders' Meeting, as well as the interim appointment of directors to fill vacancies, are approved by the Board:

- a) On the proposal of the Nominating Committee, in the case of independent directors;
- b) Subject to a prior report from the Nominating Committee, in the case of other directors.

See section: B.1.2

### Complies

27. Companies post the following director information on their websites, and keep such information updated:

- a) Professional and biographical profile;
- b) Other Boards of Directors of listed or unlisted companies on which they sit;
- c) Indication of the director's classification, specifying, for proprietary directors, the shareholder they represent or to whom they are related;
- d) Date of their first and subsequent appointments as a company director; and
- e) Shares held in the company and options thereon held by them.

### Complies

28. Proprietary directors tender their resignation when the shareholder they represent sells its entire shareholding interest. The appropriate number of them do likewise when such shareholder reduces its interest to a level that requires the reduction of the number of its proprietary directors.

See sections: A.2, A.3 and B.1.2

### Complies

29. The Board of Directors does not propose the removal of any independent director prior to the expiration of the term, set by the bylaws, for which he was appointed, except for good cause is found by the Board upon a prior report of the Nominating

Committee. In particular, good cause shall be deemed to exist whenever the director has failed to perform the duties inherent in his position or comes under any of the circumstances described in section III.5 (Definitions) of this Code.

The removal of independent directors may also be proposed as a result of Tender Offers, mergers or other similar corporate transactions that entail a change in the equity structure of the Company, when such changes in the structure of the Board follow from the proportionality standard mentioned in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

### Complies

30. Companies establish rules obliging directors to report and, if appropriate, to resign in those instances as a result of which the credit and reputation of the company might be damaged and, in particular, they require that such directors report to the Board any criminal charges brought against them, and the progress of any subsequent proceedings.

If a director is indicted or tried for any of the crimes described in Section 124 of the Companies Law, the Board examines the matter as soon as practicable and, in view of the particular circumstances thereof, decides whether or not it is appropriate for the director to continue to hold office. And the Board provides a substantiated account thereof in the Annual Corporate Governance Report.

See sections: B.1.43 and B.1.44

### Complies

31. All directors clearly express their opposition when they feel that any proposed resolution submitted to the Board might be contrary to the best interests of the company. And in particular, independent directors and the other directors not affected by the potential conflict of interest do likewise in the case of decisions that could be detrimental to the shareholders lacking Board representation.

When the Board adopts material or reiterated resolutions about which a director has expressed serious reservations, such director draws the pertinent conclusions and, if he chooses to resign, sets out the reasons in the letter referred to in the next Recommendation.

This Recommendation also applies to the Secretary of the Board, even if he is not a director.

### Complies

32. Directors who give up their position before their tenure expires, through resignation or otherwise, explain the reasons in a letter sent to all members of the Board. Without prejudice to such withdrawal being communicated as a significant event, the reason for the withdrawal is explained in the Annual Corporate Governance Report.

See section: B.1.5

Not applicable

33. Compensation paid by means of delivery of shares in the company or companies that are members of the group, share options or instruments indexed to the price of the shares, and variable compensation linked to the company's performance or pension schemes is confined to executive directors.

This recommendation shall not apply to the delivery of shares when such delivery is subjected to the condition that the directors hold the shares until they cease to hold office as directors.

See sections: A.3 and B.1.3

Complies

34. The compensation of external directors is such as is necessary to compensate them for the dedication, qualifications and responsibility required by their position, but is not so high as to compromise their independence.

Complies

35. The compensation linked to company earnings takes into account any qualifications included in the external auditor's report that reduce such earnings.

Not applicable

36. In the case of variable compensation, compensation policies include technical safeguards to ensure that such compensation reflects the professional performance of the beneficiaries thereof and not simply the general performance of the markets or of the industry in which the company does business or circumstances of this kind.

Complies

37. When there is an Executive Committee (hereinafter, "Executive Committee"), the breakdown of its members by director category is similar to that of the Board, and its secretary is the Secretary of the Board.

See sections: B.2.1 and B.2.6

Not applicable

38. The Board is always kept informed of the matters dealt with and the resolutions adopted by the Executive Committee, and all members of the Board receive a copy of the minutes of the meetings of the Executive Committee.

Not applicable

39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors forms a single Nominating and Compensation Committee as a separate committee of the Board, or a Nominating Committee and a Compensation Committee.

The rules governing the make-up and operation of the Audit Committee and the Nominating and Compensation Committee or committees are set forth in the Regulations of the Board, and include the following:

a) The Board appoints the members of such Committees, taking into account the background knowledge, qualifications and experience of the Directors and the responsibilities of each Committee, discusses its proposals and reports, and receives a report, at the first meeting of the full Board following the meetings of such committees, on their activities and the work done.

b) These Committees are formed exclusively of external directors and have a minimum of three members. The foregoing is without prejudice to the attendance of executive directors or senior managers, when expressly resolved by the members of the Committee.

c) Committee Chairmen are independent directors.

d) They may receive external advice, whenever they feel this is necessary for the discharge of their duties.

e) Minutes are prepared of their meetings, and a copy sent to all Board members.

See sections: B.2.1 and B.2.3

Complies

40. Supervising compliance with internal codes of conduct and corporate governance rules is entrusted to the Audit Committee, the Nominating Committee or, if they exist separately, to the Compliance or Corporate Governance Committee.

Complies

41. The members of the Audit Committee and, particularly, the Chairman thereof, are appointed taking into account their background knowledge and experience in accounting, auditing and risk management matters.

Complies

42. Listed companies have an internal audit function which, under the supervision of the Audit Committee, to ensure the smooth operation of the information and internal control systems.

Complies

43. The head of internal audit presents an annual work plan to the Audit Committee; reports to it directly on any issues arising in the execution of such plan; and submits an activities report to it at the end of each fiscal year.

Complies

44. Risk control and management policy specifies at least:

- a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks;
- b) The determination of the risk level the company sees as acceptable;
- c) Measures in place designed to mitigate the impact of the risks identified, should they materialize;
- e) The internal reporting and control systems to be used to monitor and manage the above risks, including contingent liabilities and off-balance sheet risks.

See section: D

Complies

45. The Audit Committee's role is:

1. With respect to the internal control and reporting systems:

- a) To monitor the preparation and the integrity of the financial information relating to the company and, if appropriate, to the group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting standards.
- b) To periodically review internal control and risk management systems so main risks are properly identified, managed and disclosed.
- c) To ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the department's budget; receive regular reports on its activities; and verify that senior management takes into account the findings and recommendations of its reports.
- d) To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the company that they detect, in particular financial or accounting irregularities.

2. With respect to the external auditor:

- a) To make recommendations to the Board for the selection, appointment, reappointment and replacement of the external auditor, and the terms of its engagement.
- b) To receive regular information from the external auditor on the audit plan and the results of the implementation thereof, and check that senior management takes its recommendations into account.
- c) To monitor the independence of the external auditor, to which end:
  - i) The company reports a change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same;



- ii) The Committee ensures that the company and the auditor adjust to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, all other regulations established to safeguard the independence of the auditors;
- iii) In the event of resignation of the external auditor, the Committee investigates the circumstances that may have given rise thereto.
- d) In the case of groups, the Committee favors the auditor of the group assuming responsibility for the audits of the companies that form part thereof.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

46. The Audit Committee may cause any company employee or manager to appear before it, and even order their appearance without the presence of any other manager.

Complies

47. The Audit Committee reports to the Board, prior to the adoption thereby of the corresponding decisions, on the following matters specified in Recommendation 8:

- a) The financial information that the Company must periodically make public due to its status as a listed company. The Committee should ensure that interim financial statements are prepared under the same accounting standards as the annual financial statements and, to this end, consider whether a limited review by the external auditor is appropriate.
- b) The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories considered tax havens, and any other transactions or operations of comparable nature whose complexity might impair the transparency of the group.
- c) Related-party transactions, unless such prior reporting duty has been assigned to another supervision and control committee.

See sections: B.2.2 and B.2.3

Complies

48. The Board of Directors seeks to present the financial statements to the shareholders at the General Shareholders' Meeting without reservations or qualifications in the auditor's report and, in the exceptional instances where they do exist, both the Chairman of the Audit Committee and the auditors give a clear account to the shareholders of the content and scope of such reservations or qualifications.

See section: B.1.38

Complies

49. The majority of the members of the Appointments Committee –or of the Appointments and Remunerations Committee, if one and the same– are independent directors.

*See section: B.2.1*

Complies

50. The Appointments Committee has the following duties, in addition to those stated in the earlier Recommendations:

- a) To assess the qualifications, background knowledge and experience necessary to sit on the Board, defining, accordingly, the duties and qualifications required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) To examine or organize, in the manner it deems appropriate, the succession of the Chairman and the chief executive and, if appropriate, make proposals to the Board for such succession to take place in an orderly and well-planned manner.
- c) To report on senior manager appointments and removals that the chief executive proposes to the Board.
- d) To report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

*See section: B.2.3*

Complies

51. The Nominating Committee consults with the Company's Chairman and chief executive, especially on matters relating to executive directors.

And that any board member may request that the Nominating Committee consider possible candidates to fill vacancies for the position of director, if it finds them suitably qualified.

Complies

52. The Compensation Committee is responsible for the following duties, in addition to those set forth in the earlier recommendations:

- a) To propose to the Board of Directors:
  - i) The compensation policy for directors and senior managers;
  - ii) The individual compensation of executive directors and other terms of their contracts;
  - iii) The basic terms and conditions of the contracts with senior managers.
- b) To ensure compliance with the compensation policy set by the company.

*See sections: B.1.14 and B.2.3*

Complies

53. The Compensation Committee consults with the Chairman and chief executive of the Company, especially on matters relating to executive directors and senior managers.

Complies

#### H. OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report. Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectoral or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

After closing 2013 financial year, on February 3th BAGOETA SL has sold its share capital which has been acquired by Jose M<sup>a</sup> Aristrain de la Cruz and Amber Capital with 11% and 6,86% share capital respectively.

This annual corporate governance report was approved by the Board of Directors of the Company at its meeting on [February 20th, 2014](#).

Indicate whether any Directors voted against or abstained in connection with the approval of this Report.

NO