TUBACEX, S.A.

(Incorporated in Spain in accordance with the Spanish Capital Companies Act)

EUR 100,000,000 Senior Unsecured Notes Programme Tubacex, S.A. 2019

INFORMATION MEMORANDUM *(DOCUMENTO BASE INFORMATIVO DE INCORPORACIÓN)* ON THE ADMISSION *(INCORPORACIÓN)* OF MEDIUM- AND LONG-TERM SECURITIES ON THE ALTERNATIVE FIXED-INCOME MARKET ("MARF")

Tubacex, S.A. (indistinctively, "**Tubacex**", the "**Company**" or the "**Issuer**" and together with the entities of the group of which the Issuer is the parent company, the "**Group**") a public listed company with limited liability (*Sociedad Anónima*) organised under the laws of Spain with registered office at 8, Tres Cruces street, Llodio, (Araba- Álava), registered in the Álava Mercantile Registry (Basque Country, Spain) in volume 433, folio 33, sheet VI-641, with tax identification number A01003946 and LEI code 95980020140005703680, will request the admission of the Notes (*incorporación de valores)* to be issued under this Programme on the Alternative Fixed-Income Market ("**MARF**") under the provisions of this Information Memorandum *(Documento Base Informativo de Incorporación) (*indistinctively, the *"***Programme***" or the "***Information Memorandum***").*

Admission (*incorporación)* to MARF will be requested for the Notes issued under the Programme. MARF is a multilateral trading facility and is not a regulated market in accordance with the provisions of the Royal Decree Law 21/2017 of December 29, 2017, on urgent measures to adapt Spanish law to the European Union securities market legislation ("**RDL 21/2017**"). There is no guarantee that the price of the Notes in MARF will be maintained. There is no assurance that the Notes will be widely distributed and actively traded on the market because at this time there is no active trading market. Nor is it possible to ensure the development or liquidity of the trading markets for the Notes. This Information Memorandum is the one required by Circular 2/2018 from the MARF, of 4 December, on the inclusion and exclusion of securities on the Alternative Fixed Income Market ("**Circular 2/2018**").

The Notes will be represented by book entries in Iberclear, according to the provisions of title VIII of the Information Memorandum.

An investment in the Notes involves certain risks. Read section III of the Information Memorandum on Risk Factors.

This Information Memorandum *(Documento Base Informativo de Incorporación)* is not a prospectus (*folleto informativo)* and has not been registered with the National Securities Market Commission ("*Comisión Nacional del Mercado de Valores*" or "*CNMV*"). The offering of the securities does not constitute a public offering in accordance with the provisions of Article 35 of Royal Decree 4/2015 of 23 October, approving the revised text of the Securities Market Act and therefore there is no obligation to approve, register, and publish a prospectus with the CNMV. The issue of Notes under this Programme is intended exclusively for professional clients and qualified investors in accordance with the provisions of Article 205 of Royal Decree 4/2015 and Article 39 of Royal Decree 1310/2005 of 4 November, which partially develops Law 24/1988, of 28 July, on the Securities Market, with regard to the admission of securities to trading on official secondary markets, public offerings or subscription, and the prospectus required for this purpose ("Royal Decree 1310/2005").

No action has been taken in any jurisdiction to permit a public offering of the Notes or the possession or distribution of the Information Memorandum or any other offering material in any country or jurisdiction where such action is required for said purpose.

MARF has not carried out any kind of verification or testing with regard to this Information Memorandum or with regard to the content of the documentation and information provided by the Issuer.

ARRANGERS AND PLACEMENT ENTITIES

BANCA MARCH, S.A., NORBOLSA SOCIEDAD DE VALORES, S.A.; AHORRO CORPORACIÓN FINANCIERA SOCIEDAD DE VALORES Y BOLSA, S.A. AND BANCO DE SABADELL, S.A.

LEGAL ADVISOR OF THE ISSUER

CUATRECASAS GONÇALVES PEREIRA, S.L.P.

REGISTERED ADVISOR

BANCA MARCH, S.A.

The date of this Information Memorandum is 8 of July 2019.

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IMPORTANT INFORMATION

Neither the Issuer nor the Arrangers have authorized anyone to provide information to potential investors other than the information contained in this Information Memorandum and other publicly available information*.* Potential investors should not base their investment decision on information other than that contained in this Information Memorandum and alternative sources of public information.

The Arrangers assume no liability for the content of the Information Memorandum. The Arrangers have signed a contract with the Issuer, but neither the Arrangers nor any other entity has made any commitment to underwrite the issue, without prejudice to the ability of the Arrangers to acquire part of the Notes on their own behalf.

This Information Memorandum is not a prospectus (*folleto informativo)* and has not been registered with the National Securities Market Commission (CNMV). The offering of the securities does not constitute a public offering in accordance with the provisions of Article 35 of Royal Decree 4/2015 of 23 October, approving the revised text of the Securities Market Act ("**SML**"), and therefore there is no obligation to approve, register, and publish a prospectus with CNMV.

Admission (*incorporación*) to MARF will be requested for the Notes issued under the Programme.

MARF has the legal structure of a multilateral trading facility (MTF) (sistema multilateral de negociación (SMN)), under the terms set out Article 26 and Article 44 et seq. of the Royal Decree Law 21/2017 of 29 December, on urgent measures to adapt Spanish law to the European Union securities market legislation (*Real Decreto-ley 21/2017, de 29 de diciembre, de medidas urgentes para la adaptación del derecho español a la normativa de la Unión Europea en materia del Mercado de Valores*), constituting an unofficial alternative market for the trading of fixed-income securities.

This Information Memorandum follows the applicable proceedings on admission (*incorporación*) to trading and removal of MARF set out in its own Regulations and other applicable regulations. Neither MARF, the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (*CNMV*) or the Placement Entities have approved or carried out any verification or testing regarding the content of the Information Memorandum, or/and the audited financial statements submitted by the Issuer required under Circular 2/2018, of 4 December 2018 of MARF. The intervention of MARF does not represent a statement or recognition of the full, comprehensible and consistent nature of the information set out in the documentation provided by the Issuer.

It is recommended that the investor fully and carefully reads the present Information Memorandum prior to making any investment decision regarding the securities.

The Issuer hereby expressly declares that it is aware of the requirements and conditions necessary for the acceptance, permanence and removal of the securities on MARF, according to its current legislation, and expressly agrees to comply with them.

The Notes will be represented by book entries in Iberclear, according to the provisions of section VIII of the Information Memorandum.

PRODUCT GOVERNANCE STANDARDS UNDER MIFID II

THE TARGET MARKET WILL ONLY BE ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS

Exclusively for the purposes of the product approval process to be carried out by each producer, following the assessment of the target market for the Notes, it has been concluded that: (i) the market to which the Notes are intended to be issued is solely for "eligible counterparties" and "professional clients" as defined for each of these terms in the Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments and amending Directives 2002/92/EC and 2011/61/EC ("**MiFID II**") and their implementing legislation and (ii) all channels of distribution of the Notes to eligible counterparties and professional clients are appropriate.

Any person who, after the initial placement of the Notes, offers, sells, places, recommends or otherwise makes available the Notes (the "**Distributor**") shall take into account the assessment of the producer's target market. However, any Distributor subject to MiFID II shall be responsible for carrying out its own assessment of the target market with respect to the Notes (either by applying the evaluation of the target market of the producer or/and to identify appropriate distribution channel).

SELLING RESTRICTIONS

No action has been taken in any jurisdiction to permit a public offering of the Notes or the possession or distribution of the Information Memorandum or any other offering material in any country or jurisdiction where such action is required for said purpose.

In particular:

European Union

The Notes are only directed to qualified investors according to the provisions in Article 2.1.e) of Directive 2003/71/EC. Therefore, this Information Memorandum has not been registered with any competent authority of any Member State.

Spain

This Information Memorandum has not been registered with the National Securities Market Commission in Spain ("*Comisión Nacional del Mercado de Valores*" or "*CNMV*"). The issue of the Notes will not constitute a public offering in accordance with the provisions of Article 35 of Royal Decree 4/2015 of 23 October, approving the revised text of the Securities Market Act. The issue of Notes shall be intended exclusively for professional clients and qualified investors in accordance with the provisions of Article 205 of Royal Decree 4/2015 of 23 October, approving the revised text of the Securities Market Act and Article 39 of Royal Decree 1310/2005 of 4 November, which partially develops Law 24/1988, of 28 July, on the Securities Market, with regard to the admission of securities to trading on official secondary markets, public offerings or subscription, and the prospectus required for this purpose ("**Royal Decree 1310/2005**").

Portugal

This Information Memorandum has not been registered with the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) and no action has been undertaken that would be considered a public offer of the Notes in Portugal. According to the above, the Notes to be issued under this Programme may not be offered, sold, or distributed in Portugal except in accordance with the provisions of Articles 109, 110 and 111 of the Portuguese Securities Code (*Código dos Valores Mobiliários*).

Andorra

No action has been undertaken that may require the registration of this Information Memorandum with any authority of the Principality of Andorra.

Switzerland

This document does not constitute an offer to sell or a solicitation to buy the Notes in Switzerland. The Notes issued under the Programme shall not be subject to public offering or advertised, directly or indirectly, in Switzerland and will not be listed on SIX, the Swiss Exchange, or any other Swiss market. Neither this document nor the issue or marketing materials of the Notes constitute a prospectus within the meaning of articles 652a or 1156 of the Swiss Code of Obligations, nor a listing prospectus according to the Admission rules of the SIX Swiss Exchange or any other Swiss market.

United States

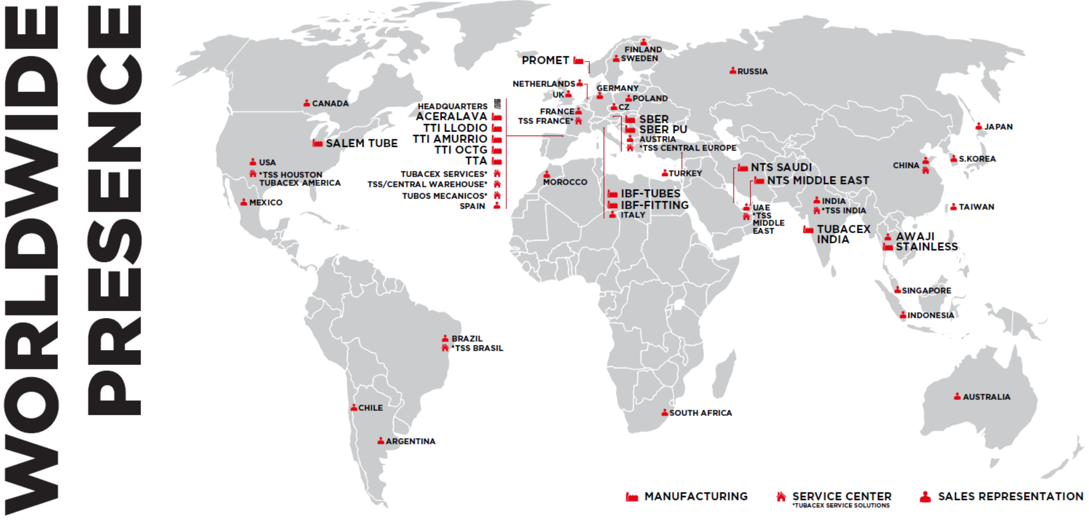
This document must not be distributed, directly or indirectly, in (or sent to) the United States of America (according to definitions of the "Securities Act" of 1933 of the United States of America – "***U.S. Securities Act***"). This document is not an offer to sell securities or a solicitation to buy any securities in any jurisdiction in which such offer or sale is considered contrary to law. The Notes issued under the Programme will not be registered in the United States for the purposes of the U.S. Securities Act and may not be offered or sold in the United States without registration or an exemption application for registration under the U.S. Securities Act. There will not be a public offering of the notes in the United States or in any other jurisdiction.

I. SUMMARY

1. Overview of the Business of the Issuer

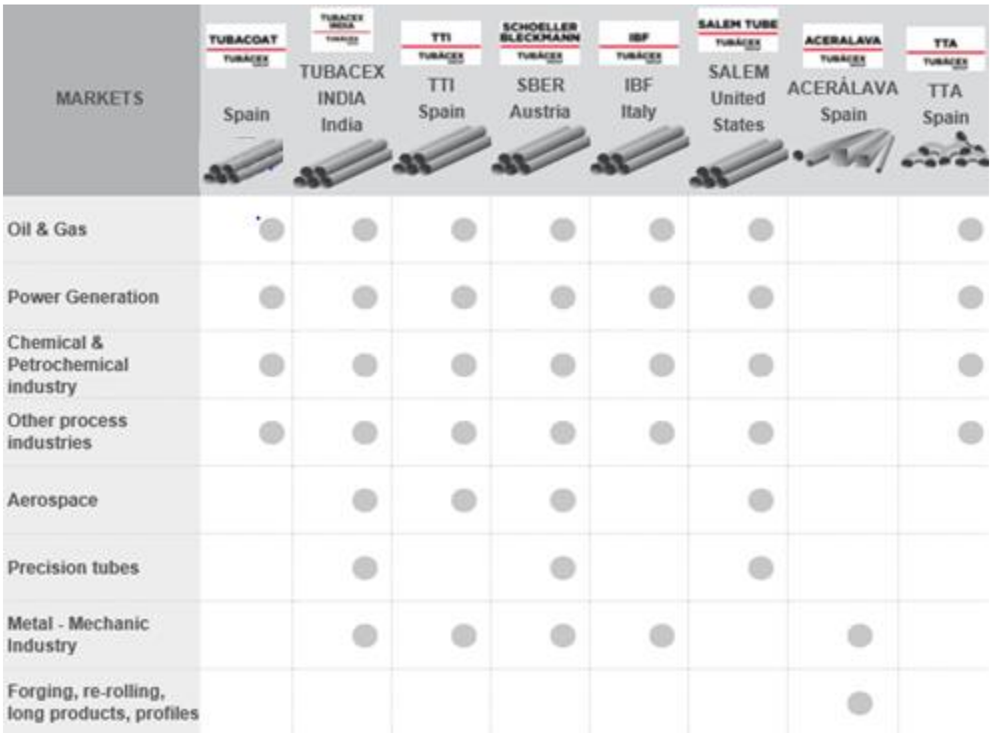
Tubacex was incorporated as a public company with limited liability under the laws of Spain on 6 June 1963. This Spanish, multinational company is engaged in the manufacture and marketing of tubular solutions in stainless steel and high nickel alloys, with industrial facilities in Europe, Asia, and USA, as well as a network of sales offices throughout the world.

Tubacex is the world's first manufacturer of seamless stainless steel tubes and the one offering the widest dimensional range, as well as one of the few with integrated production: steel fabrication, hot extrusion and cold rolling of tubes. The existence of their own steelworks gives the installations enormous flexibility in the production of their tubes, both in terms of the possibility of special casting and of reducing delivery times for urgent orders. The Group has its own sales network, which distributes its products worldwide:



WORLDWIDE PRESENCE
CANADA
SALEM TUBE
USA
*TSS HOUSTON
TUBACEX AMERICA
MEXICO
HEADQUARTERS
ACERALAVA
TTI LLODIO
TTI AMURRIO
TTI OCTG
TTA
TUBACEX SERVICES*
TSS/CENTRAL WAREHOUSE*
TUBOS MECANICOS*
SPAIN
PROMET
FINLAND
SWEDEN
NETHERLANDS
UK
GERMANY
POLAND
FRANCE
TSS FRANCE*
CZ
SBER
SBER PU
AUSTRIA
*TSS CENTRAL EUROPE
RUSSIA
MOROCCO
TURKEY
IBF-TUBES
IBF-FITTING
ITALY
NTS SAUDI
NTS MIDDLE EAST
UAE
*TSS MIDDLE EAST
INDIA
*TSS INDIA
TUBACEX INDIA
CHINA
JAPAN
S.KOREA
TAIWAN
AWAJI STAINLESS
SINGAPORE
INDONESIA
AUSTRALIA
SOUTH AFRICA
BRAZIL
*TSS BRASIL
CHILE
ARGENTINA
MANUFACTURING
SERVICE CENTER
*TUBACEX SERVICE SOLUTIONS
SALES REPRESENTATION

Oil&Gas, Chemical and Petrochemical and Power Generation sectors account by more than 90% of Tubacex sales. Nevertheless, the Group also devotes part of its production to the mechanical industry, aerospace, food, water desalination, electronics, capital goods and new technologies industries, among other sectors of activity:



MARKETS	Spain	TUBACEX INDIA India	TTI Spain	SBER Austria	IBF Italy	SALEM United States	ACERÁLAVA Spain	TTA Spain
Oil & Gas	●	●	●	●	●	●		●
Power Generation	●	●	●	●	●	●		●
Chemical & Petrochemical industry	●	●	●	●	●	●		●
Other process industries	●	●	●	●	●	●		●
Aerospace		●	●	●		●		
Precision tubes		●		●		●		
Metal - Mechanic Industry		●	●	●	●		●	
Forging, re-rolling, long products, profiles							●	

Out of the 2018 total sales figure, those in Europe, the company's natural market, represent 47%, 8% in USA and 45% in other markets.

The Group employs approximately 2,383 people from around twenty nationalities in 17 countries.

Tubacex has been listed on the Spanish stock exchange (TUB MC) since 1970 and its shares are included in the IBEX SMALL CAP index.

2. History

Since its inception, the Company has grown significantly in terms of revenues, earnings, and global presence, becoming a multinational company that exports into more than 100 countries worldwide in the market of seamless stainless steel tubes and pipes, with commercial offices in the main global locations.

Tubacex was founded in 1963 as an integrated company fully devoted to the production of seamless carbon steel tubes and alloyed tubes, but it was not until 1965 that the company manufactured its first tube in Llodio.

In 1970, the company is listed in the Spanish Stock Market and during the next decades, Tubacex carries out an expansion plan with the objective of manufacturing its own steel and having an integrated production chain: steel manufacturing, hot extrusion and cold-rolling of tubes. During the nineties, there is a complete reorganization of the company: new organization; specialization in stainless steel tubes; industrial and staff restructuring; creation of industrial subsidiaries; financial restructuring. A highlight moment in this regard occurred when Tubacex acquired the Austrian company Schoeller Bleckmann, becoming the second largest worldwide manufacturer of seamless steel tubes. In addition to that, the acquisition of Schoeller Bleckmann allowed Tubacex to further develop its global presence.

Regarding its international expansion, Tubacex develops its growth strategy between the seventies and the nineties, opening offices around Europe and America. In 1995, the company opens its first sales office in Asia, in Pekin, becoming its key market. From that moment onwards, Tubacex has opened several sales offices in Asia, such as in Seoul (2000), Shanghai (2004), India (2015) and Singapore (2015) and warehouses in Indonesia and Shanghai (2005).

The Issuer complements its global offer with a worldwide network of own warehouses, Tubacex Service Solutions (TSS), able to provide immediate product delivery and a wide range of finishing services, opening in 2017 warehouses in India, Middle East, Iran and Central Europe. TSS reflects the new strategy of Tubacex to evolve from a tube manufacturer to a global tubular solutions provider.

In addition to this, Tubacex has invested in new lines of action in R&D as part of its commitment to the development of new products. The Group launched Tubacoat in 2012, a Tubacex Group company specialised in the engineering and industrial development of customised innovative coatings applied to long steel and nickel alloy products. It is a unique proposition worldwide, which provides a longer life cycle to the refining petrochemical processing units.

With all of these actions and the new perimeter set up during the crisis, (acquisition of IBF, Prakash, Awaji and Nobu and the creation of Tubacex Upstream, Tubacex Services and Tubacex Durant) Tubacex Group has become the largest seamless stainless steel manufacturer with the widest product range in the world and is getting closer to its strategic goal of becoming a full service tubular solution provider.

3. Relevant aspects of recent activity

The Group is engaged in the production and sale of seamless tubes in stainless steel and high nickel alloys. In addition, it manufactures other long stainless steel products.

Tubacex has opted for high added value and technological products, for which it has developed production capacities in those segments with a higher level of specialisation and high added value within the oil, gas and energy sectors in which it expects greater growth, such as the exploration and extraction of oil and gas in critical conditions (offshore and deep water) and the generation of energy in new generation plants.

The portfolio of Tubacex contains a wide range of products manufactured and sold by the Group:

- Stainless steel and high nickel alloy bars and billets

    - Round and square billets from up to 500mm: rolled from 120 to 200mm; Forged from 200 to 500mm

- Seamless pipe and tubes to 8” (extrusion, piercing, cold finishing)

    - Seamless stainless Steel and nickel alloy tubes and pipes: the size manufactured through the extrusion press and the 10 cold Rolling machines goes from ½” up to 8” NPS, or 19-250 mm OD
    - Seamless stainless Steel pipes and tubes: in dimensions between 1/8” and 8” NPS pr 6-250mm OD
    - Welded and seamless stainless steel and nickel alloys tubes from 1/8” to 2 OD.
    - Seamless stainless steel tubes and pipes: pierced and cold finished from 6mm OD to 273,1 mm OD

- Seamless pipe and tubes to 72”

    - Tubes up to 42” in any wall thickness.
    - Fittings from ½ to 72” NS

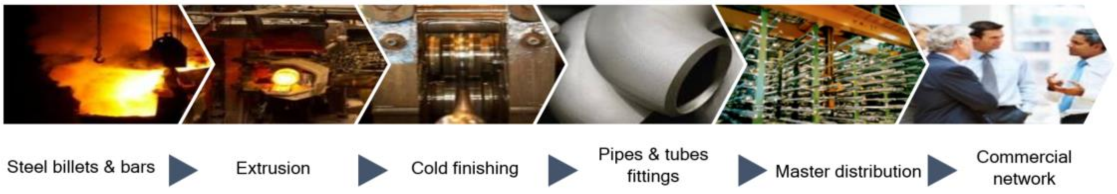
- Fittings and special connections from 1/2” to 72”

    - Stainless steel (also carbon and alloy) butt welding fittings: size range goes from 1 ½” up to 14” NPS, in short and long radius as well as in special radii.
    - Stainless fittings (seamless and welded) in austenitic grades: from ½” to 12”.

- Stock, Service and Trading Value added operations

    - Global network of Service Centres
    - Special added-value operations

The production process of the Issuer can be summarized as follows:

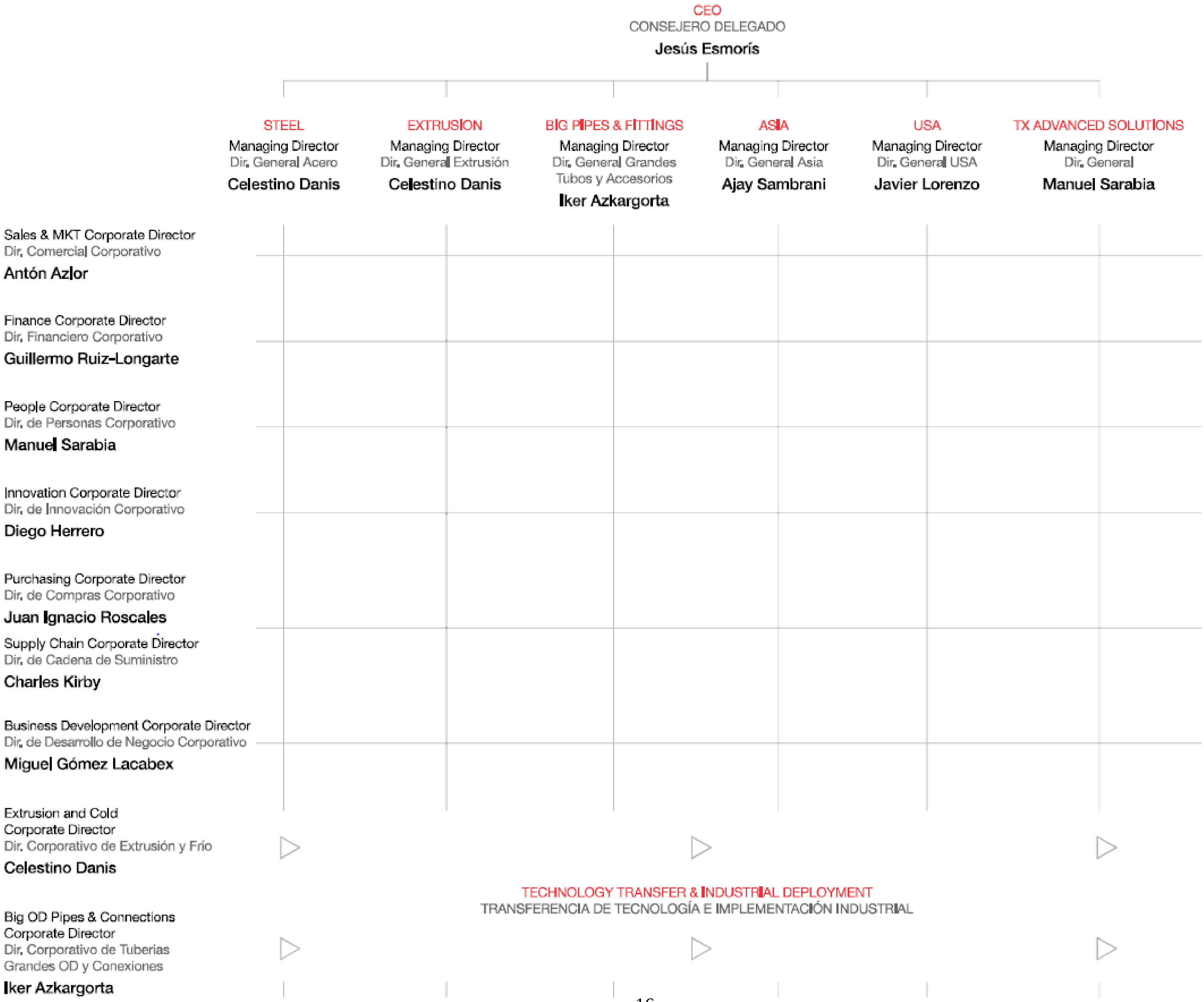


(1) Source: Tubacex’s website

4. Organizational Structure

Tubacex has adopted a management model that enables it to respond swiftly to market opportunities, adding value for its clients. Based on the existence of a structure of companies whose coordination is at group level through the management team, it seeks to maximize efficiency and operational synergies. The Management Committee acts under the principles set out in the company's Code of Conduct, with a philosophy of ongoing improvement and satisfying the needs of its stakeholders.

The Management Committee is made up of the CEO and the management team responsible for the support areas and the company's business units. More specifically, it is made up of the Sales and Marketing, Financial, People, Innovation and Purchasing areas and the business units under which the range of products and services is integrated. This structure favors the corporate alignment and increases the response capacity in light of market changes, improving the information flow and the quality of decision-making at all levels. In 2019, the Corporate Director for Supply Chain Management and the Corporate Director for Business Development joined, making a total of 13 members in this executive body.



CEO
CONSEJERO DELEGADO
Jesús Esmorís

STEEL
Managing Director
Dir. General Acero
Celestino Danis

EXTRUSION
Managing Director
Dir. General Extrusión
Celestino Danis

BIG PIPES & FITTINGS
Managing Director
Dir. General Grandes Tubos y Accesorios
Iker Azkargorta

ASIA
Managing Director
Dir. General Asia
Ajay Sambrani

USA
Managing Director
Dir. General USA
Javier Lorenzo

TX ADVANCED SOLUTIONS
Managing Director
Dir. General
Manuel Sarabia

Sales & MKT Corporate Director
Dir. Comercial Corporativo
Antón Azlor

Finance Corporate Director
Dir. Financiero Corporativo
Guillermo Ruiz-Longarte

People Corporate Director
Dir. de Personas Corporativo
Manuel Sarabia

Innovation Corporate Director
Dir. de Innovación Corporativo
Diego Herrero

Purchasing Corporate Director
Dir. de Compras Corporativo
Juan Ignacio Roscales

Supply Chain Corporate Director
Dir. de Cadena de Suministro
Charles Kirby

Business Development Corporate Director
Dir. de Desarrollo de Negocio Corporativo
Miguel Gómez Lacabex

Extrusion and Cold Corporate Director
Dir. Corporativo de Extrusión y Frío
Celestino Danis

TECHNOLOGY TRANSFER & INDUSTRIAL DEPLOYMENT
TRANSFERENCIA DE TECNOLOGÍA E IMPLEMENTACIÓN INDUSTRIAL

Big OD Pipes & Connections Corporate Director
Dir. Corporativo de Tuberias Grandes OD y Conexiones
Iker Azkargorta

5. Strategy

The Issuer’s main strategic objectives are the following:

Objective 1: ***Strengthen the position of Tubacex as a global supplier of tubular solutions***

For this, it is necessary to grow throughout the value chain and be present in all the necessary phases to offer an integrated solution, from the design of the concept to the installation and maintenance of the solution. In this aspect, the Innovation area is of fundamental importance. Thus, the company is opening and beginning to develop new lines of activity, both in the area of R&D and in the search for strategic alliances to develop integrated value propositions, especially in applications with high technological component.

Objective 2: ***Reduce volatility***

Through three fundamental routes: diversification of the sectors of activity in which the products are used, product diversification towards those with greater added value and reduction of the impact of the raw materials on the profitability of orders.

Objective 3: ***Grow profitably and sustainably***

This is a two-stage objective; in a first phase, with a standardised market and the current sales mix; and a second one after achieving full positioning as a supplier of integral tubular solutions.

Objective 4: ***Obtain a level of excellence above 500 in the EFQM model***

Tubacex undergoes an annual self-evaluation to measure the evolution of its excellence in the organization. The results since 2013 show a favorable evolution in all the evaluation criteria with outstanding results especially in the criteria of "Strategy", "Leadership" and "Products, Processes and Services".

Industry 4.0

Tubacex is participating in a global acceleration of technological development, facilitated by digitalization. Thus, the Company is assuming the adoption of digital technologies, and the concepts of Industry 4.0 as a strategic necessity, assuming a growing number of technological innovation projects in its production plants that will allow it to continue being a world reference.

Both the intensification of collaboration with external agents and the technological acceleration and the increasingly strong emergence of digitalisation are causing a change in the focus of Tubacex's innovation process. Open innovation is the right way to innovate, the multidisciplinary approach is increasingly necessary, and collaboration with technological start-ups appears as a new capacity to be developed.

6. Financial information

The financial information presented in this Information Memorandum includes the consolidated financial statements of Tubacex and its Group for the years ended 31 December 2017 and 31 December 2018, which have been extracted from the audited consolidated annual accounts of the Group for the years ended 31 December 2018 and 31 December 2017, included in "**Annex 1**" and "**Annex 2**" of this Information Memorandum.

The consolidated financial statements as of 31 December 2018 and 2017 have been prepared from the accounting records of the Group and are presented in accordance with the commercial legislation and the established rules in the General Accounting Plan approved by Royal Decree 1514/2007 and the amendments made thereto by Royal Decree 1159/2010.

Certain data contained in this Information Memorandum, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row of the tables may not conform exactly to the total figure given for that column or row, or the sum of certain numbers presented as a percentage may not conform to the total percentage given.

II. RISK FACTORS

The following are the risks to which Tubacex and its Group is exposed, including those arising from the business areas in which it operates, as well as those specifically related to its business. The materialization of any of these risks could have a negative effect on its business, financial position, and the results of Tubacex and its Group operations, and subsequently the nominal and/or interest that investors receive for the Notes.

Prospective investors should carefully consider the risks described below in conjunction with other information contained in this document. In addition, these risks are not the only ones to which the Issuer could be exposed; it may be the case that risks which are currently unknown or not considered relevant at this time could materialize in the future.

1. Risks related to the Issuer's Industry and Business

1. Risks arising from unexpected adjustments and project cancellations

The Group's project portfolio corresponding to this business area is sometimes exposed to unexpected adjustments and cancellations, as well as to anticipated maturities or variations, since the projects may remain in the portfolio for a long period of time.

This circumstance increases the possibility that any of these contracts may be terminated early, respecting the corresponding notice periods or due to breach or defect on the part of the Group. In such circumstances, the Group may not be entitled to receive the indemnity corresponding to early maturity.

2. Risks associated with potential manufacturing defects.

The Group's positioning in the manufacture of high value-added tubes requires the implementation of demanding quality control of the products and services that Tubacex provides to its customers. Notwithstanding the foregoing, the Group cannot completely rule out the possibility that some of its products or services may present a defect that could cause damage to goods or persons or to the facilities that could install the tubes manufactured by Tubacex, or even interrupt the customer's production process or cause environmental damage. Without prejudice to exhaustive quality controls and the highest degree of compliance with standards and regulations, possible defects could lead to the Group's obligation to pay compensation or to circumstances deteriorating the turnover or commercial reputation of the Tubacex and its Group. Most of the impact of these risks are under the umbrella of international insurances.

3. *Environmental risks*

The Group's operations are subject to environmental protection legislation. In particular, in the countries in which the Group operates (and especially in the European Union and the United States) these production processes are subject to multiple environmental regulations. This regulation affects the protection of serious accidents, the use of chemical substances (REACH regulation), the elimination of wastewater, the elimination of hazardous industrial waste, atmospheric and aquatic pollution and soil protection.

The Group considers that it complies with these laws and that it maintains procedures designed to encourage and guarantee compliance, although stricter regulations may entail the need to make significant investments or pay additional taxes or fees, either for new equipment or for cleaning up any environmental risks that might arise. In addition to internal procedures, the group maintains insurance policies to cover environmental risks of its production facilities.

4. *Risks related to belonging to an intensive consumer industry of raw materials and energy*

The production of tubes is essentially intensive in the consumption of raw materials (nickel, stainless steel scrap, molybdenum and chromium), and Tubacex must maintain diversification in external sources of supply.

The Issuer depends on regular deliveries from particular suppliers of raw materials. The foregoing means that interruptions or stoppages in such deliveries could materially and adversely affect Tubacex operations until an alternative is found. In addition, Tubacex may not be able to find acceptable alternatives, and any such alternatives could result in increased costs and potential losses on certain contracts. Even if acceptable alternatives are found, the process of locating and securing such alternatives might be disruptive to Tubacex business and might lead to the termination of supply agreements with its customers.

If any of the Issuer's suppliers fail or refuse to deliver materials to them for an extended period of time, or if Tubacex is unable to negotiate acceptable terms for the supply of materials with these or alternative suppliers, the business could suffer. Tubacex may not be able to find acceptable alternatives, and any such alternatives could result in increased costs and potential losses on certain contracts. Even if acceptable alternatives are found, the process of locating and securing such alternatives might be disruptive to the business and might lead to the termination of supply agreements with their customers.

The Issuer depends on the ability of its suppliers to provide materials that meet its customers' technical specifications, quality standards, and delivery schedules.

Likewise, energy is a particularly intensive vector in the Group's production process.

5. *Risks related to safety and health at work:*

The importance of the industrial workforce in the Group's activities makes occupational health and safety management a particularly important element.

The Group has adopted, in accordance with the legislation in force at each of its industrial sites, the required measures and maintains a continuous commitment to guaranteeing the absolute implementation of measures aimed at preventing and avoiding occupational accidents.

6. *Risks derived from claims of responsibility in the development of its activity*

The Group could be exposed to substantial liability claims due to the dangerous nature of some of the activities it carries out, or due to contractual errors or omissions or those of its professionals in the performance of those activities.

An accident or a failure in the development, execution and/or operation of the works, projects and concessions carried out by the Group or in the provision of its services may cause damage or even death to persons, as well as the deterioration of installations and equipment or the environment, and the Group may be exposed to claims for acts and omissions by subcontractors that cause damage.

7. *Risk of loss of key personnel*

Tubacex has a management team with a substantial amount of expertise in the industry. The departure of key members of management could result in the loss of valuable know-how and/or less or unsuccessful implementation of strategies.

8. Other risks of doing business in foreign countries

International operations are subject to various risks that could have a material adverse effect on those operations and Tubacex business as a whole, including but not limited to:

- Exposure to local economic and social conditions, including logistical and communication challenges;

- Exposure to local political conditions;

- Exposure to local public health issues and the resulting impact on economic and political conditions;

- Exposure to potentially undeveloped legal systems, which make it difficult to enforce contractual rights; and exposure to potentially adverse changes in laws and regulatory practices;

- Exposure to local tax requirements and obligations;

- Foreign currency exchange rate fluctuations and currency controls;

- Greater risk of uncontrollable accounts and longer collection cycles;

- The necessity of foreign representatives and/or consultants;

- The risk of government sponsored competition;

- The difficulty of managing and operating an enterprise spread over various countries;

- Controls on the repatriation of cash, including the imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries;

- Exposure to potential economic or financial sanctions or trade embargoes or other comprehensive prohibitions against transaction activity performed in certain countries pursuant to anti-terrorism laws, export control laws or other laws or regulations imposed, administered, enacted or enforced from time to time by certain "Sanctions Authority" such as United States, United Nations Security Council, the European Union (or any of its member states), the United Kingdom, Spain, or the respective governmental institutions of any of the foregoing including, without limitation, Her Majesty's Treasury, the UK Department for Business, the Office of Foreign Assets Control of the US Department of the Treasury, the US Department of Commerce, the US Department of State and any other agency of the US government.

- Export and import restrictions.

9. *Infringement of intellectual property license rights and the failure to protect the Group's intellectual property may adversely affect Tubacex business*

The Company believes that it either owns or may validly use all of the intellectual and industrial property rights required for its business operations, and that it has taken all reasonable measures to protect its rights or obtain warranties from the owners of third party rights. However, Tubacex cannot rule out the risk that its intellectual and industrial property rights may be disputed by a third party on the grounds of pre-existing rights or for any other reason. Furthermore, for countries outside of Europe and North America, Tubacex cannot be sure of holding or obtaining intellectual and industrial property rights that offer the same level of protection as those in Europe and North America.

10. *Increases in labour costs, potential labour disputes and work stoppages at Tubacex facilities and the facilities of its suppliers or customers could materially adversely affect Tubacex financial performance*

Tubacex has a specific exposure to labour strikes at its companies, mainly in international operations. If major work disruptions involving its employees were to occur, the business could be adversely affected by a variety of factors, including a loss of revenues, increased costs and reduced profitability. Tubacex cannot assure that the Company will not experience a material labour disruption at one or more of its facilities in the future. Tubacex cannot guarantee that it will be able to successfully extend or renegotiate its collective bargaining agreements as they expire from time to time. If Tubacex fails to extend or renegotiate any of its collective bargaining agreements or is only able to renegotiate them on terms that are less favourable to the Company, it may need to incur additional costs, which could have a material adverse effect on the business, financial position, and the results of operations.

11. *The Issuer's operations depend on its ability to maintain continual, uninterrupted production at its manufacturing facilities, as well as the continual, uninterrupted performance of its information technology ("IT") system*

Like any industrial society, the maintenance of production equipment is essential for the proper functioning of the business. This investment requires dedication and funding. However, Tubacex cannot guarantee that its efforts can prevent any event that could result in production problems.

12. *Increased capital expenditure requirements for Tubacex ongoing operations will consume cash from Tubacex operations and borrowings*

The Issuer's ability to undertake such operational and maintenance measures largely depends on the cash flow from its operations and its access to capital. Tubacex intends to continue to fund its cash needs through cash flows from operations.

However, there may be unforeseen capital expenditure needs for which the Issuer may not have adequate capital. The timing of capital expenditures may also cause fluctuations in Tubacex operational results.

13. *A breach of the covenants of Tubacex Notes or financing contracts could adversely affect Tubacex financial position*

This Programme contemplates certain covenants that Tubacex or its Group has to meet. Such covenants are reflected in section 8 of the Information Memorandum.

Additionally, Tubacex and its Group have certain bilateral financing agreements. Any breach of the covenants of the Notes or of certain bilateral financing agreements may require Tubacex to repay the Notes or the relevant financing contracts early, which may adversely affect Tubacex business, its results, or its financial, economic or equity situation.

14. *Tubacex is subject to a complex local and international tax environment that often requires the Company to make subjective determinations (i.e. Transfer pricing, international and local laws, regulations and criteria)*

Tubacex is subject to many different forms of taxation including but not limited to income tax, value added tax, social security, and other payroll-related taxes. Tax law and administration is complex and often requires the Company to make subjective determinations. The tax authorities may not agree with the determinations that Tubacex makes with respect to the application of tax law. Such disagreements could result in lengthy legal disputes and, ultimately, in the payment of substantial amounts of tax, interest, and penalties.

15. *At certain times, Tubacex may not be adequately insured*

Tubacex currently has insurance arrangements in place for products and public liability, property damage, business interruption (including for sudden and unexpected environmental damage) and other areas. However, these insurance policies may not cover losses or damages resulting from the materialization of any of the risks Tubacex is subject to.

16. *Terrorism, other acts of violence, wars or political changes in geographical areas where Tubacex operates may affect its business and results*

Terrorism, other acts of violence, or war may negatively affect the Issuer's business and the results of its operations. There can be no assurance that there will not be terrorist attacks or violent acts that may directly affect Tubacex, its customers, or partners. In addition, political changes in certain geographical areas where Tubacex operate may affect its business and the results of operations. Any of these occurrences could cause a significant disruption in the Tubacex business and could adversely affect Tubacex business operations, financial position, and operational results.

17. *Natural catastrophe affecting any of Tubacex plants*

The Company's plants are exposed to natural disasters. Should a natural disaster occur, the effect could damage part or all of the machinery and thus cease production for a certain period of time. In this case, the Company may have to assume high costs to repair or substitute the affected equipment in order to restore production. Such events could have a material adverse effect on the Issuer's business operations, financial position, and operational results.

18. *Tubacex may be subject to current or future restrictions on the transfer of funds*

Under the current foreign exchange regulations in certain countries, there are restrictions on the transfer of funds to and from such countries, which may include restrictions on the disposition of funds deposited with banks and restrictions on transferring funds abroad, and may require official approval to buy foreign currency. Additionally, the Issuer has trapped cash in certain jurisdictions in which it operates in relation to its joint ventures and local law. These restrictions could impact the payment of dividends to us by certain of its subsidiaries. If Tubacex was unable to repatriate funds from any such countries, Tubacex would not be able to use the cash flow from its businesses to finance its operating requirements elsewhere and satisfy its debt obligations, including the Notes.

2. Financial risk factors

Tubacex activities are exposed to a number of financial risks (fair value risk and price risk), exchange risk, and interest rate risk on cash flows. Tubacex seeks to minimize potential adverse effects on its financial performance. Risk management is controlled by its financial department in accordance with policies approved by the Company.

1. Market risk (fair value and price risk)

Tubacex and its Group is exposed to variations in the price of the main raw materials for the manufacture of stainless steel such as nickel, chromium, molybdenum and stainless steel scrap itself, indexed in its price mainly to the cost of nickel. The most significant effect comes from the price of the nickel, which is quoted daily on the London Metal Exchange (LME) and its impact on the cost its scrap itself, as well as the cost of chromium and molybdenum.

The general policy of Tubacex and its Group is to achieve the coverage of the raw material corresponding to the orders of both steel and tubes quoted at a fixed price so that they are isolated from potential fluctuations prior to collection. In addition to that, in 2018 nickel price-hedging transactions were carried out on finished product stocks. These hedges are applied to possible price fluctuations for goods indexed to the nickel price and the Group is evaluating other alternatives to cover more potential fluctuations.

2. Credit risk

It is one of the most important risks for the Company because it affects the entire turnover of the business. The general policy is to cover the largest number of credit insurance transactions, for which the Group has signed the corresponding annual contracts.

In 2018, the policy was extended to include operations of more Group subsidiaries. Transactions not included in the aforementioned contracts are covered by letters of credit or sufficient collateral. The Group's general policy is to maintain minimum levels of exposure to credit risk. This policy has resulted in historical exceptionally low percentages of defaults.

3. Liquidity risk

The Group carries out prudent liquidity risk management, based on loans with long maturities and good financial conditions, credit lines with large limits, some of which are not drawn down, which allow credit to be available in the short term, factoring lines which help to anticipate customer collections, confirming lines that facilitate the management of payments to suppliers and through a heterogeneity of sources of financing, diversifying among financial entities, public administration granting CDTIs loans, European Investment Bank, Compañía Española de Financiación del Desarrollo, COFIDES and Mercado Alternativo de Renta Fija. The Group also has a high cash position, which allows it to have a good liquidity position.

Moreover, it should be noted that in relation to the Spanish Act 31/2014, of 3 December, amending the Companies Act for the improvement of corporate governance, and to the information required by the mentioned Act to be included in the management report, the Group's average payment period is 79 days. This payment refers to payments to suppliers made by the parent company and the rest of the Spanish subsidiaries. This period is longer than the legal maximum payment period established by Act 11/2013, of 26 July, although this occurs for administrative reasons that will presumably be corrected in the short-term.

4. Exchange risk

The Group is exposed to currency fluctuations. A distinction is made between two effects arising from sales of products and purchases of raw materials. On the one hand, there is a risk in the variation of the margin generated in sales from the moment of sale until collection, and a risk in the purchase values made in dollars and Indian rupees, mainly raw materials. On the other hand, there is a risk in the consolidation of the results of the subsidiaries outside the Euro zone (through the use of the closing exchange rate method) whose financial statements are in dollars or other currencies. The greatest exposure is to US dollars, although there is also exposure in pounds sterling and rupees. The general policy of the Group is not to speculate with open positions, considering both the balance sheet positions such as the risk assumed in the order book and taking insurances to mitigate the Group's exposure always under conservative policies.

5. Interest risk

The loans and credit accounts arranged by the Group are mainly indexed to the Euribor index and to a lesser extent to the Libor USA index, at different contracting and settlement terms, which exposes the Group's financial cost to potential variations in interest rates. The Group hedges fixed interest rate risk in order to mitigate this exposure, mainly in long-term transactions.

3. Risks relating to the Notes issued under the Programme

1. Early redemption of the notes risk

The Programme provides the possibility of early redemption of the Notes issued there under by the Issuer, who then proceeded with the transaction, an investor might not be able to reinvest the outcome on comparable values at the same interest rate.

2. Future sale of Notes on the secondary market after the offering could negatively affect the Notes' market price

Sales of a substantial number of the Company's Notes on the public market following this offering, or the perception that such issuance or sale might occur, could adversely affect the market price of the Notes and/or the Company's ability to raise capital through a future public offering.

3. The Notes price could be volatile and subject to sudden and significant declines

The market price of the Notes may be volatile. Factors beyond the Company's control, such as changes in the results of operations and the financial position of the Company's competitors, negative publicity, or changes in financial market conditions, may have a significant effect on the market price of the Company's Notes. In addition, during the past few years, the markets in Spain and worldwide have experienced significant volatility in prices and trading volumes. This volatility could have a negative impact on the market price of the Notes, regardless of the Company's financial position and the results of its operations.

4. *Noteholders in countries with currencies other than the euro will be exposed to exchange rate risks*

Noteholders residing in countries that have not adopted the euro as their official currency will be exposed to an additional investment risk related to variations in the rate of exchange between the currency of their country of residence and the euro. Notes will only be issued and listed in Euros.

5. *Tubacex may not be able to obtain the funds required to repurchase Notes upon a change of control*

The terms and conditions of the Notes issued under the Programme shall contain provisions relating to certain events constituting a "Change of Control" of Tubacex. Upon a Change of Control, Tubacex would be required to offer to repurchase all outstanding Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, as of the date of repurchase. If a Change of Control were to occur, Tubacex cannot assure you that it would have sufficient funds available at such time to pay the repurchase price of the outstanding Notes under the Programme. A Change of Control may result in a prepayment or default event, and the acceleration of other indebtedness. The repurchase of the Notes pursuant to such an offer could precipitate a default under such indebtedness, even if the Change of Control itself does not. Sufficient funds may not be available when necessary to make any required repurchases. In addition, Tubacex expects that it would require third party financing to make an offer to repurchase the Notes upon a Change of Control. Tubacex cannot assure you that it would be able to obtain such financing. Any failure by the Issuer to offer to purchase the Notes would constitute a default under the terms and conditions of the Notes issued under the Programme.

The Change of Control provision may not necessarily afford protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction, involving Tubacex that may adversely affect the Noteholders, because such corporate events may not involve a shift in voting power or beneficial ownership or, if they do, may not constitute a "Change of Control" as defined in the terms and conditions of the Notes issued under the Programme.

6. *There may not be an active trading market for the Notes, in which case the ability to sell the Notes may be limited*

Tubacex cannot assure Noteholders of the liquidity of any market, their ability to sell the Notes, or the sale price of the Notes. Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, Tubacex's operating results, and the market for similar securities.

Although an application will be submitted to list the Notes issued under the Programme on the Spanish *Mercado Alternativo de Renta Fija* (MARF), Tubacex cannot assure that the Notes will be or will remain listed.

Although no assurance is made as to the liquidity of the Notes as a result of admission (*incorporación*) to the MARF market, failure to be approved for admission or exclusion (whether or not for an alternative admission to listing on another stock exchange) of the Notes from the MARF market may have a material effect on a Noteholder's ability to resell the Notes, as applicable, on the secondary market.

7. *The decisions of the Noteholders Syndicate may be contrary to those of individual Noteholders*

The terms and conditions of the Notes issued under the Programme may include clauses regarding the Noteholders Syndicate assemblies, which may take place to resolve matters regarding the interests of Noteholders. These clauses establish specific majorities which will be binding for all Noteholders, including those who have not come nor voted in the assembly, or who have voted against the majority, thus being bound by the decisions taken in a validly convened and held assembly. Therefore, it is possible that the Noteholders Syndicate takes a decision with which an individual Noteholder does not agree, but to which all Noteholders are bound.

8. *Risk related to the Issuer as an entity with no operations of its own*

The Issuer is an entity with no independent business operations and no significant assets, other than the equity interests the Company holds in its subsidiaries. The Issuer will be dependent upon the cash flows from its subsidiaries in the form of dividends or others distributions or payments to meet its obligations, including its obligations under the Notes. The amounts of dividends and distributions available to the Company will depend on the profitability and cash flows of its subsidiaries and the ability of its subsidiaries to issue dividends to it under the applicable law. The subsidiaries of the Issuer, however, may not be permitted to make distributions, move cash, or advance upstream loans to the Issuer to make payments in respect of its indebtedness, including the Notes. Applicable laws and regulations, including tax laws, may also limit the amounts that the subsidiaries of the Issuer are permitted to pay as dividends or distributions. Any restrictions on distributions by such subsidiaries could adversely affect the ability of the Issuer to make payment on the Notes.

III. DECLARATION OF LIABILITY

1. Person responsible for the information contained in the Information Memorandum

(a) Mr. Jesús Esmorís Esmorís, as chief executive officer, in the name and on behalf of Tubacex, S.A. (interchangeably, "**Tubacex"** the "**Company**" or the "**Issuer**"), duly authorized by virtue of the resolutions passed by the Board of Directors of the Issuer granted on May 22, 2019, is responsible for the entire contents of this Information Memorandum (*Documento Base Informativo de Incorporación)*.

(b) Mr. Jesús Esmorís Esmorís is expressly authorized to grant such public or private documents as may be necessary for the proper processing of the Notes issued under this Programme, as representative of the Company.

2. Statement of the person responsible for the content of the Information Memorandum

Mr. Jesús Esmorís Esmorís, as representative of Tubacex hereby declares that, after acting with reasonable care, the information contained in this Information Memorandum is, to his knowledge, in full accordance with the facts and contains no omissions likely to affect its content.

IV. FUNCTIONS OF THE REGISTERED ADVISOR OF MARF

Banca March, S.A. is a company incorporated on 24 June 1946, before the notary public of Madrid, Mr. Rodrigo Molina Pérez, that adapted its corporate bylaws to the current Capital Companies Act on 19 July 1990 before the notary public of Madrid, Mr. Luis Coronel de Palma, with number 3,703 of his official records, duly registered in the Commercial Registry of Baleares, Volume 20, Book 104, Page 230, Sheet 195, and in the Registry of Registered Advisors pursuant to instruction (*Instrucción Operativa*) 8/2014 ("**Banca March**" or the "**Registered Advisor**").

Banca March has been designated as Registered Advisor of the Issuer. Accordingly, the Registered Advisor shall enable the Issuer to comply with the obligations and responsibilities to be assumed on incorporating its issues into the multilateral trading facility, the Alternative Fixed-Income Market ("**MARF**" or the "**Market**"), acting as specialist liaison between both, MARF and Tubacex, and as a means to facilitate the insertion and development of the same under the new securities trading regime.

Therefore, Banca March must provide MARF with any periodically information it may require and, on the other hand, MARF may require as much information as it may deem necessary regarding the actions to be carried out and its corresponding obligations, being authorized to perform as many actions as necessary, where appropriate, in order to verify the information provided.

The Issuer must have, at any time, a designated Registered Advisor registered in the "Market Registered Advisor Registry" (*Registro de Asesores Registrados del Mercado*).

Banca March has been designated as Registered Advisor of the Issuer in order to provide advisory services to Tubacex (i) on the admission to trading (*incorporación*) of the securities issued, (ii) on compliance with any obligations and responsibilities applicable to the Issuer for taking part on MARF, (iii) on compiling and presenting the financial and business information required, and (iv) in order to ensure that the information complies with these regulatory requirements.

As Registered Advisor, Banca March with respect to the request for the admission (*incorporación*) to trading of the securities on MARF:

(i) has verified that the Issuer complies with the requirements of MARF's regulations for the admission (*incorporación*) of the securities to trading;

(ii) has assisted the Issuer in the preparation of the Information Memorandum, has reviewed all the information provided by the Issuer to the Market in connection with the request for the admission (*incorporación*) to trading of the securities on MARF and has checked that the information provided complies with the requirements of applicable regulations and does not leave out any relevant information that could lead to confusion among potential investors.

Once the securities are admitted to trading, the Registered Advisor will:

(i) review the information that the Issuer prepares for MARF periodically or on a one-off basis, and verify that this information meets the requirements concerning content and deadlines set out in the regulations;

(ii) advise the Issuer on the events that might affect compliance with the obligations assumed when including its securities to trading on MARF, and on the best way of treating such events in order to avoid breach of said obligations;

(iii) report to MARF any events that could represent a breach by the Issuer of its obligations in case it notices any potential and relevant breach that had not been rectified following notification; and

(iv) manage, answer and deal with queries and requests for information from MARF regarding the situation of the Issuer, progress of its activity, the level of compliance with its obligations and any other data the Market may deem relevant.

Regarding the previous, the Registered Advisor shall perform the following actions:

(i) maintain regular and necessary contact with the Issuer and analyze any exceptional situations that may arise concerning the evolution of the price, trading volumes and other relevant circumstances regarding trading of the Issuer's securities;

(ii) sign any declarations which, in general, have been set out in the regulations as a consequence of the admission (*incorporación*) to trading of the securities on MARF, as well as with regard to the information required from companies with securities on the Market;

(iii) forward to MARF, without delay, the communications received in response to queries and requests for information the latter may send.

V. INDEPENDENT AUDITORS

1. Name and address of the auditors of the Issuer for the period covered by the historical financial information (together with their membership in a professional body)

Deloitte, S.L. ("**Deloitte**"), with registered office at Plaza Pablo Ruiz Picasso, 1, Torre Picasso, Madrid, tax identification number B-79104469 has audited the consolidated annual accounts of Tubacex corresponding to the financial years ended 31 December 2018 and 2017.

2. If auditors have resigned, been removed from their duties or have not been re-appointed during the period covered by the historical financial information, indicate the details, if material

The Company's auditor has not resigned nor been removed from its duties during the financial years 2018 and 2017.

VI. INFORMATION ON THE ISSUER

1. Full name of the Issuer including its address and identification data

The full name of the Issuer is **TUBACEX, S.A.** Its registered office is at calle Tres Cruces, nº 8, Barrio de Gardea, Llodio (Álava, Spain).

The Issuer is a public limited company (*sociedad anónima*) incorporated on 6 June 1963 by means of a public deed granted before the notary public of Bilbao, Mr.

Gerardo Arriola Aguirre, and duly registered in the Commercial Registry of Álava, Volume 59, 9, Page 45, Sheet 150.

The Tax Identification Number of the Issuer is A-01.003.946.

The Legal Entity Identifier (LEI) of the Issuer is 95980020140005703680.

Website: http://www.tubacex.com/

To the extent that the Issuer is a company listed on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges, the relevant information for shareholders and investors (which includes, among others, the significant shareholdings at any given time, the composition of the governing body and its committees) is available in the corresponding section of the website, as well as on the website of the National Securities Market Commission (*Comisión Nacional de Mercado de Valores*).

2. Description of the Issuer

2.1. Milestones of the Issuer

Tubacex is an industrial Group founded in 1963 devoted to manufacturing seamless tubes in stainless steel and high-nickel alloys and super alloys, with its head office in Llodio (Alava-Spain).

Tubacex is a leading multinational Group, with industrial facilities in Spain, Austria, the United States, Italy, India, Thailand and the United Arab Emirates, a global distribution network (TSS) and a worldwide sales presence.

Tubacex is the largest worldwide producer of seamless tubes in stainless steel and high-nickel alloys, and one of the few companies to have an integrated production: steel manufacturing, hot extrusion and cold-rolling of the tubes. The existence of Tubacex own steelworks provides the facilities with a large flexibility in the production of tubes, both for the opportunity of making special castings as well as reducing delivery times in urgent orders. The Group has a unique marketing structure for its products on a worldwide level.

Tubacex is listed in the Spanish Stock Market (TUB MC) since 1970 and its shares are integrated in the IBEX SMALL CAPS index.

During the year 2018, Tubacex sold its products in over 100 countries around the world. Sales in Europe, the natural market of the company, accounted for 47%. The United States accounted by 8% of the total and 45% other markets. Its registered office and tax office is located in Llodio (Álava).

2.2. Main Shareholders

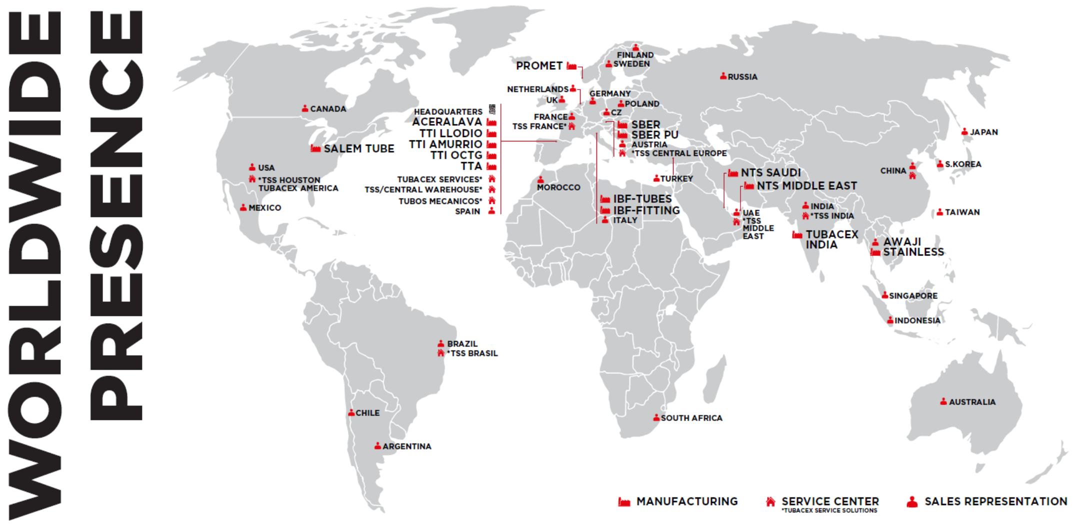
Tubacex has its shares listed on the continuous market of the Spanish Stock Exchange. Significant shareholders of the Company are:

Name		Percentage	
Grupo Aristrain	Corporación JM Aristrain, S.L.	10%	11.00%
	Corporación JMA BV, SARL	1%	
Azvalor, S.L.		3.00%	
Dimensional Fund Advisors LP		3.00%	
Ecofin Limited		4.93%	
EDM Gestión S.A. SGIIC		5.05%	
Álvaro Guzmán de Lázaro Mateos		5.06%	
Itzarri, ESPV		3.21%	
Ángel Soria Vaquerizo		3.03%	
Santa Lucía, S.A. Compañía de Seguros		3.03%	

2.3. Organizational Structure

As of 31 December 2018, the Group is comprised of the following representative registered companies (parent company included), as follows:

-


WORLDWIDE PRESENCE
CANADA
SALEM TUBE
USA
*TSS HOUSTON
TUBACEX AMERICA
MEXICO
HEADQUARTERS
ACERALAVA
TTI LLODIO
TTI AMURRIO
TTI OCTG
TTA
TUBACEX SERVICES*
TSS/CENTRAL WAREHOUSE*
TUBOS MECANICOS*
SPAIN
PROMET
NETHERLANDS
UK
FRANCE
TSS FRANCE*
FINLAND
SWEDEN
GERMANY
POLAND
CZ
SBER
SBER PU
AUSTRIA
*TSS CENTRAL EUROPE
MOROCCO
IBF-TUBES
IBF-FITTING
ITALY
TURKEY
RUSSIA
NTS SAUDI
NTS MIDDLE EAST
UAE
*TSS MIDDLE EAST
INDIA
*TSS INDIA
TUBACEX INDIA
CHINA
JAPAN
S.KOREA
TAIWAN
AWAJI STAINLESS
SINGAPORE
INDONESIA
BRAZIL
*TSS BRASIL
CHILE
ARGENTINA
SOUTH AFRICA
AUSTRALIA
MANUFACTURING
SERVICE CENTER
*TUBACEX SERVICE SOLUTIONS
SALES REPRESENTATION

- **The parent company of the Group**

  - Tubacex, S.A. is a holding company and the parent company of the Group, without productive activity, with registered office at C/ Tres Cruces, 8 Barrio de Gardea, 01400 Llodio (Araba-Álava). Tubacex, S.A. is listed in the Spanish Stock Market (TUB MC) since 1970 and its shares are integrated in the IBEX MEDIUM CAP index.

- **The corporate management services subsidiary companies of the Group**

  - Tubacex Servicios de Gestión, S.L. (Vat number: B95932364). Registered at Parque Científico y Tecnológico de Bizkaia, Ibaizabal bidea, Edificio 702, 1ª plata, 48160, Derio (Bizkaia);

  - Tubacex Logistics, S.A. (Vat number: A95874681). Registered at Paseo Landabarri 2, 2ª planta, 48940 Leioa (Bizkaia);

- Tubacex Upstream Technologies, S.A. (Vat number: A95831251). Registered at Paseo Landabarri 2, 2ª planta, 48940 Leioa (Bizkaia).

- **The industrial and innovation & development subsidiary companies of the Group**

In Spain.-

- Acería de Álava, S.A.U. (Vat number: A01010958). The registered office is at Polígono Industrial de Saratxo, s/n, 01470 Amurrio (Araba-Álava);

- Tubacex Tubos Inoxidables, S.A.U. (Vat number: A01140227). The registered office is at C/ Tres Cruces, 8 Barrio de Gardea, 01400 Llodio (Araba-Álava);

- Tubacex Taylor Accesorios, S.A.U. (Vat number: A01006741). The registered office is at Barrio Arenaza s/n Crta. de Vitoria, 01474, Artziniega (Araba-Álava);

- Tubacex Services, S.L. (Vat number: B39788435). The registered office is at 3 Avenida de Orejo, 39719, Orejo (Cantabria);

- Tubacoat, S.L. (Vat number: B95692273). The registered office is at Paseo de Landabarri 2, 2ª planta, 48940 Leioa (Bizkaia);

- Tubacex Innovación, A.I.E. (Vat number: V01455864). The registered office is at Parque Científico y Tecnológico de Bizkaia, Astondo Bidea, Efificio 612, 48160, Derio (Bizkaia).

In Austria.-

- Schoeller Bleckmann Edelstahlrohr, GmbH (Vat number: ATU41013808). The registered office at Rohrstrasse 1. A-2630 Ternitz, (Austria).

In Italy.-

- IBF S.p.A. (Vat number: 02941900165). The registered office at Via Ghandi 17/19 – 20010 Vittuone, Milan, (Italy).

In India.-

- Tubacex Prakash India Pvt Ltd. (Vat number: U28113MH2015PTC263656). The registered office at Survey 131/1, Umbergaon Sanjan Road, 396171 Umbergaon, Dist. Valsad-Gujarat (India).

In Thailand.-

- Tubacex Awaji Thailand (Vat number: 115559027692). The registered office at 10/20 Moo 8, Tambon Tai-Ban Mai, Amphur Muang-Samutprakarn, Samutprakarn Province, 10280 (Thailand).

In U.S.A.-

- Salem Tube Inc. (Vat number: 25-1651664). The registered office at 1209 Orange Street, Wilmington, County of New Castle, 19801 Delaware, (USA); 951 Fourth Street, 16125 Greenville, Pennsylvania, (USA);

- Tubacex Durant, Inc. (Vat number: 83-1629795) The registered office at 251 Little Falls Drive, Wilmington, County of New Castle, 19808 Delaware, (USA); 362 Country Club Road, 74701 Durant, Oklahoma, (USA).

In Saudi Arabia, Dubai and Norway through the Nobu Group.-

- NTS MIDDLE EAST, FZCO -a Jebel Ali Free Zone Company organised and existing under the laws of Dubai-, con domicilio social en Jebel Ali Free Zone and Plot No. EWTA-13, Street No. 621, P.O. Box 262210, Jebel Ali Free Zone, Dubai, United Arab Emirates, con número de registro 2439, Industrial License No. 7671 y Trading License No. 7670.

- **The worldwide service centers companies of the Group**

  - Tubacex Service Solutions, S.A.U. (Vat number: A48061824). The registered office at Polígono Industrial de Saratxo s/n, 01470, Amurrio (Araba-Álava);

- Tubos Mecánicos Norte, S.A.U. (Vat number: A01270131). The registered office at Polígono Industrial de Murga-Izoria, 01476, Ayala (Araba-Álava);

- Tubos Mecánicos, S.A.U. (Vat number: A08346892). The registered office at Calle de l'Hostal del Pi 14, 08630, Abrera (Barcelona);

- Tubacex America Inc. (Vat number: 76-0466037) The registered office at 5430 Brystone Drive. 77041 Houston, Texas (USA);

- Tubacex Service Solutions France, S.A.S. (Vat number: FR57441171147) The registered office at Z.A.C. des Chesnes Nord 56, Rue des Combes. 38290 Satolas et Bonce (France);

- Tubacex Service Solutions India, Pvt. Ltd. (Vat number: U28910MH2015FTC265756). The registered office at 402A, Platina, Bandra Kurla Complex, Bandra East, 400051, Mumbai (India);

- Tubacex Services Solutions Do Brasil Comércio E Distribuição De Tubos E Aços Especiais Ltda. (Vat number: 14.396.001/0001-01). The registered office at . Avenida das Naçoes Unidas, nº 12.399, conjunto 18, bloco A, Blooklin Novo, São Paulo, Estado de São Paulo (Brazil);

- Tubacex Services Solutions Austria Gmbh (Vat number: ATU71215589). The registered office at Rohrstrasse 1. A-2630 Ternitz. (Austria);

- Tubacex Service Solutions Middle East, Fzco (Vat number: 187593). The registered office at Jebel Ali Free Zone. 293692 Dubai, (United Arab Emirates).

▪ **Sales Offices**

- Schoeller- Bleckmann Edelstahlrohr Deutschland GmbH (Vat number: HRB17258) The registered office at Am Wasserturm 6, 40668 Meerbusch (Germany);

- Tubacex Europe B.V. (Vat number: 230453380000) The registered office at Brieltjenspolder, 28 -4921 PJ MADE (Holland);

- Schoeller Bleckmann Tube France. (Vat number: FR11408195238) The registered office at 9 rue du 11 Novembre 93600 Aulnay Sous Bois. (France);

- Tubacex Consulting (Shanghai) Co., LTD (Vat number:91310000768366309P). The registered office at China Merchants Plaza, Unit #1502-East Building 333, Chengdu Bei Road, 200041 Shanghai, (China);

- Tubacex Cis, LLC. (Vat number: 1187746455082) The registered office at Kozhevnicheskaya St., House 10, Building 1, Office premises 14, Floor 05, 115114 City of Moscow, (Russia).

2.4. Corporate purpose

In accordance with article 3 of Tubacex by-laws, the corporate purpose of the Company is:

"The Company's corporate purpose is:

1. *The manufacture and sale of special steel tubes, or metal tubes in general, seamless or otherwise, as well as any other specific metallurgical industry products.*

2. *To give assistance and support to subsidiary or affiliated companies and enterprises, for which it will be able to provide the appropriate services and guarantees in their favour.*

3. *The preparation and implementation of plans and projects for the creation, promotion, development, investment and shareholding, in general, concerning industrial, commercial and service companies or businesses.*

   These activities, integrated in the purpose of the corporation, can be carried out without territorial restrictions, and can be carried out directly, either totally or partially by the Company or by means of ownership of shares or stakes in other companies or entities with a similar business object.

   The Company will also be able to perform, on its own, by shareholding in the capital of other companies or by means of association with other entities, any *activities which are complementary or auxiliary to those specified above or are linked or related with them or prove to be instrumentally necessary for its development.*

Any of the activities shown for which there are specific requirements, legally demanded, which are not met by this Company, are excluded from the corporate purposes."

2.5. Administrative and management bodies

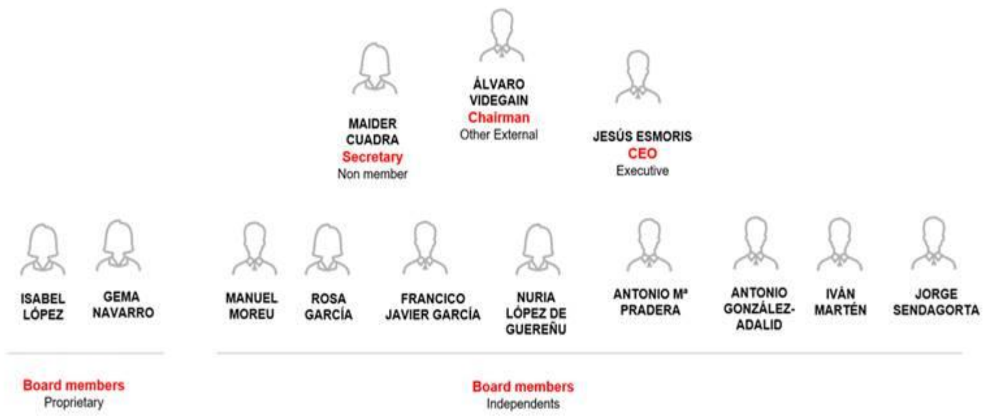
2.5.1. Board of Directors

The management of Tubacex is, as of the date of this Information Memorandum, composed of:

- President: Mr. Álvaro Videgain Muro

- CEO: Mr. Jesús Esmorís Esmorís

- Board Members: Ms. Rosa María García García, Mr. Francisco Javier García Sanz, Ms. Gema Navarro Mangado, Mr. Antonio González-Adalid García-Zozaya, Mr. Manuel Moreu Munaiz, Ms. Nuria López de Guereñu, Mr. Antonio Pradera, Ms. María Isabel López Paños, Mr. Jorge Manuel Sendagorta Gomedio and Mr. Iván Marten Uliarte.


MAIDER CUADRA
Secretary
Non member
ÁLVARO VIDEGAIN
Chairman
Other External
JESÚS ESMORIS
CEO
Executive
ISABEL LÓPEZ
GEMA NAVARRO
Board members
Proprietary
MANUEL MOREU
ROSA GARCÍA
FRANCICO JAVIER GARCÍA
NURIA LÓPEZ DE GUEREÑU
ANTONIO Mª PRADERA
ANTONIO GONZÁLEZ-ADALID
IVÁN MARTÉN
JORGE SENDAGORTA
Board members
Independents

CVs of the Board of Directors of Tubacex are as follow:

- **Mr. Álvaro Videgain Muro, acting as President of Tubacex**

  - Graduate in Law and in Economic and Business Sciences from the University of Deusto. Diploma in Marketing and Strategic Planning from Insead (Fontainebleau). Since joining Tubacex in 1981, he held various positions until he was appointed Managing Director in 1992 and subsequently Chairman, holding both positions until 2013. He is currently also Chairman of the Tubacex Foundation. He is also a director of Sener and IMQ, a member of the advisory board of Banca March Zona Norte and of the board of Deusto Business School. He has been a director of Iberdrola Renovables and Adveo as well as a member of the Advisory Board of Mercapital. He has also been vice-chairman of Asepeyo Consejo regional Norte and Innobasque. He has been a member of the Artistic Commission of the Guggenheim Museum as well as to its Board of Trustees. He has also been a member of APD Council North and to the Executive Council of Confebask and SEA. He has been President of the Circle of Basque businessmen and of the Association of Graduates of Economic and Business Studies of the Commercial University of Deusto.

- **Mr. Jesús Esmorís, acting as CEO of Tubacex**

  - Industrial engineer. He started his professional activity in Germany, as Project and Commercial Director in several industrial companies. In 1991, he founded Autokomp GmbH, a company dedicated to the development in the German automotive sector of the business of several companies in the Basque Country.

  - In 1996, he joined the newly created Corporación Industrial Egaña (currently CIE Automotive), where he worked as the Strategic and Commercial Managing Director. In 2002, he was appointed Metal Managing Director and in 2005 he is appointed as Managing

Director of the Group. In January 2013, he was appointed as the CEO of Tubacex.

- **Ms. Rosa María García García**

  - With a degree in Mathematical Sciences from the Universidad Autónoma de Madrid, this director has more than 30 years of international experience in the sectors of Information Technologies, Energy, Infrastructures and Industry.

  - Most of her career has been developed in Microsoft. In 1991, she joined Microsoft Ibérica as Director of Technical Support, moving in 1996 to its parent company in Redmond (USA) and work together with the CEO Steve Ballmer, as Director of Corporate Strategy. In 2000, she was appointed Chief Executive Officer of Worldwide Sales and Marketing of Microsoft Partners and, in May 2002, she returned to Spain to assume maximum responsibility for Microsoft Ibérica as executive president of the company. In 2008 she was appointed Vice President of Consumer Affairs for Europe.

  - On October 1, 2011, she joined Siemens as executive president in Spain, position she held until December 2018.

  - In addition, she has more than 10 years of experience as a member of the Board of Directors of IBEX 35 companies, having been a director of Banesto, Bolsas y Mercados Spaniards, Acerinox and Bankinter. She has also been the non-executive president of Siemens Gamesa.

  - She is a regular contributor to innovation and leadership issues in different media. She is strongly committed to the improvement of education in Spain and the development of technical vocations among girls and therefore she cooperates with multiple NGOs, universities and business schools.

- **Ms. Francisco Javier García Sanz**

  - Business Administration Doctor honoris causa from University of Stuttgart (2008), he started his professional career as Sales responsible at Adam Opel AG in Rüsselsheim in 1979.From 1980 to 1993, he developed several positions at Opel and GM Europe and in the U.S., becoming Executive Director of Worldwide Sales at GM Corporation in Detroit (USA).

  - In 1993, he joined Volkswagen as head of sales for the Group's Electrics/Electronics division. From 1997 to 2007 he was a member of the Executive Committee of the Volkswagen brand, becoming the Vice President of the Volkswagen Group in 2001. Furthermore, in 1995, he was appointed Executive Vice President of SEAT, S.A., becoming Director of the company in 1997 and Chairman of the Board of Directors in 2007.

  - He was also Chairman of Volkswagen Navarra and VGED (Volkswagen Group España Distribution) and member of the Boards of Directors of Audi AG, FAW Volkswagen (China), Shanghai Volkswagen and Scania AB as well as member of the Surveillance Council of Porsche AG. He was also Chairman of the Boards of Directors of Volkswagen Brazil and Volkswagen Argentina.

  - Between June 2009 and July 2012, he was president of ANFAC and later member of the same. He also occupied a position of relevance in the employers' association of manufacturers in the German automotive industry (VDA).

  - In 2009, he was appointed President of the Wolfsburg football team, a position in which he was responsible for until 2018.

  - Francisco Javier Garcia Sanz left all his responsibilities in the VW Group on April 12 2018. He remains a member of the Boards of Directors of the companies Criteria Caixa and Hochtief AG.

- **Ms. Gema Navarro Mangado**

  - With a solid technical background in the commercial and financial fields, Mrs. Gema Navarro Mangado has been developing her professional activity for more than fifteen years as a real estate and financial asset management consultant from her organization in Luxembourg.

  - She has been a Director of several national and foreign companies, and is currently Vice-President of Industrial Investments in Txindoki and Director of Corporación Aristrain.

- **Mr. Antonio González-Adalid García-Zozaya**

  - Naval Engineer from the Universidad Politécnica (Madrid) and Master in Economics and Management of Companies by IESE (Barcelona). He is currently Chairman of Cartera Industrial Rea S.A. and non-executive Chairman of Global Power Generation. He is also Vice President of GASCAN. S.A. and Director of MIBGAS Derivatives. He is Chairman of the Spanish Committee of the Lloyd´s Register of Shipping from 2011. Until his incorporation to REA, all his professional trajectory has been linked to the energy sector, in which he has held the positions of financial director of Enagás, of the INH and Repsol, Vice President of Exploration and Production and Vice President of Chemistry, as a director of Repsol, Gas Natural and Petronor, or President of the IESE Alumni Association. Between 2002 and 2007 he was president of Enagás. He has been Director of Europac, Mecalux and Banco Popular.

- **Mr. Manuel Moreu Munaiz**

  - Doctor in Naval Engineering from the Escuela Técnica Superior de Ingenieros Navales (ETSIN) of the Universidad Politécnica de Madrid and Master in Oceanic Engineering from the Massachusetts Institute of Technology (MIT). He is currently a director and member of the Executive Delegate and Corporate Social Responsibility Committees of Iberdrola and Chairman of Seaplace S.L., H.I. Ingeniería y Proyectos S.L. and Howard Ingeniería y Desarrollo S.L.

  - He has been a member of the Board of Directors of Iberdrola Renovables S.A. (2007-2011) and director and member of the Audit and Compliance Committee of Gamesa Corporación Tecnológica, S.A. (2013-2015) Has served as head of the Technical Department of Sociedad Española de Clasificación y Registro de Buques, Artefactos Flotantes e Ingenios Oceánicos, S.A. (Fidenavis) and in the Technical Direction of Seaplace. He is a lecturer in the Master's Degree in Maritime Law at the Spanish Maritime Institute and the Universidad Pontificia de Comillas and the Master's Degree in Petroleum at the Escuela Técnica Superior de la Escuela de Minas de la UPM and was a lecturer at the Escuela Técnica Superior de Ingenieros Navales y Oceánicos de la UPM and the Master's Degree in Petroleum at Repsol. He chaired the Engineering Institute of Spain from 2012 to 2016 and was Dean of the Official College of Naval and Ocean Engineers of Spain from 2006 to 2010.

- **Ms. Isabel López Paños**

  - Law graduate and lawyer of the Illustrious College of Lawyers of Madrid. She has a diploma in Insolvency Studies from ICAM and Member of the Board of Directors of Hernández-Echevarría Abogados. She began her career in the Law Office of Federico Puig, advising the clients on the most important Governing Councils of various Cooperative Societies.

  - She accumulates a extensive experience as a litigation lawyer in the civil, criminal and mercantile fields. She has a long professional trajectory advising large and medium family wealth ("family-offices") and venture capital investment funds, in the ordinary operations of business traffic, as well as in the in extraordinary acquisitions. She has provided services in transactions of raw materials ("commodities"), as well as in the industrial, commercial and real estate sectors. She has held the position of Secretary of the Board of Directors of management of different companies.

- **Nuria López de Guereñu Ansola**

  - Telecommunications Engineer by the UPC and Master in Business Administration MBA by ESIC. She was Secretary General of Confebask (business organisation of the Basque Autonomous Community) from 2011 to 2014. She has developed research tasks in the Tekniker and Vicomtech technology centres, and management of computer systems and data management in Osakidetza. She was IT director at Mendaro Hospital. Throughout its political and institutional trajectory, She was a Member of the Parliament in the Basque Parliament; Member of the Provincial Council of Guipúzcoa; and Councillor for Transport and Public Works of the Basque Government. In the academic field, She has a European Master Erasmus Mundus in Design and Management of Training Policies by the University College of London, and is currently completing her doctoral studies in the field of the Sociology of Learning at the UPV-EHU.

- **Mr. Antonio Mª Pradera Jauregui**

  - Civil Engineer. He currently holds the position of Chairman of the Board of Directors of Administration of CIE Automotive and Global Dominion Access. He began his professional career as Director at Banco Bilbao between 1979 and 1985. After a short period as freelance engineer was appointed Managing Director of Nerisa in 1988 where he remained until 1993 when he joined SEAT as Director of Strategy. In 1995, he played an important role in the in the creation of INSSEC, becoming its CEO and occupying this position until 2010. As Executive President of CIE AUTOMOTIVE, he is very involved in the management of strategic and financial aspects.

- **Mr. Jorge Sendagorta Gomendio**

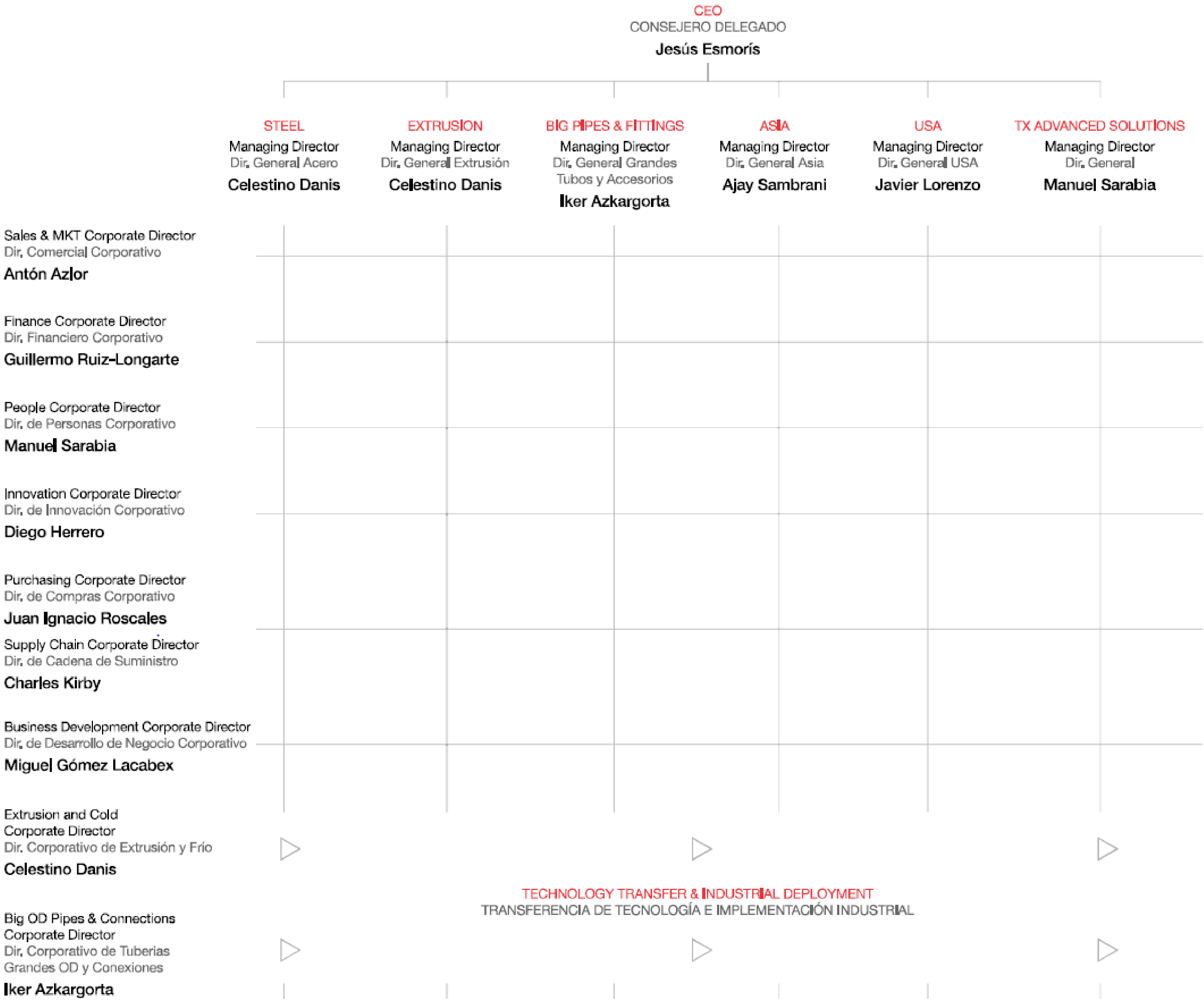
  - President of SENER since 2000 and Managing Director until May 2018, an engineering group with a turnover of 780 M€, employs 3,000 people and is recognised for its capacity for innovation and its international development. He joined the company in 1986, as Deputy General Manager, after working for several years as Technical Manager in the marine structures shipyards of an important construction company and later founding and managing SEAPLACE, an engineering company specialized in offshore platforms. He holds a Masters in Ocean Engineering from the M.I.T. (Cambridge, Massachusetts) and holds a PhD in Naval Engineering from the Polytechnic University of Madrid, where he subsequently taught doctoral courses from 1978 to 1984. He completed his academic training by taking the Program (PADE) at IESE Business School in 1990. He currently presides the Alumni Association of IESE Business School and has chaired the Circle de Basque Country businessmen until April 2018.

- **Mr. Iván Marten Uliarte**

  - Mr. Ivan Marten has been an Independent Director at Tubacex, S.A. since May 23, 2018. Mr. Marten is Senior partner and Managing Director of The Boston Consulting Group and is the Vice Chairman of the Energy Practice. He has have been the Global Leader of BCG's Energy practice since 2008, for which he was previously the Leader in Europe, Middle East and Africa. He is a Member of the BCG global Client Team leading the Seat at the Table Initiative. Over the course of his more than 30 years in the energy and environment industry he has supported companies and CEOs in the power, gas, oil and green energy sectors to develop their strategic visions and transform their companies by defining and executing their change and transform agendas. He has advised governments and regulators across the world on issues related to energy regulation and sustainable development. He was honored in 2013 as one of the "Top 25" most influential consultants of the year by Consulting Magazine, and chosen by The Wall Street Journal to become one of "The Experts"; an exclusive group of energy thought leaders. Throughout his career, he has published numerous articles and reports on energy, environment, and organization issues. He is also an advisory board member of several foundations, companies and educational institutions. Prior to joining BCG's London office in 1987, he earned a PhD summa cum laude in business administration from the Universidad Autónoma de Madrid.

2.5.2. Senior Management

The Senior Management structure of Tubacex, as of the date of preparation of this Information Memorandum, is as follows:



CEO
CONSEJERO DELEGADO
Jesús Esmorís

STEEL
Managing Director
Dir. General Acero
Celestino Danis

EXTRUSION
Managing Director
Dir. General Extrusión
Celestino Danis

BIG PIPES & FITTINGS
Managing Director
Dir. General Grandes Tubos y Accesorios
Iker Azkargorta

ASIA
Managing Director
Dir. General Asia
Ajay Sambrani

USA
Managing Director
Dir. General USA
Javier Lorenzo

TX ADVANCED SOLUTIONS
Managing Director
Dir. General
Manuel Sarabia

Sales & MKT Corporate Director
Dir. Comercial Corporativo
Antón Azlor

Finance Corporate Director
Dir. Financiero Corporativo
Guillermo Ruiz-Longarte

People Corporate Director
Dir. de Personas Corporativo
Manuel Sarabia

Innovation Corporate Director
Dir. de Innovación Corporativo
Diego Herrero

Purchasing Corporate Director
Dir. de Compras Corporativo
Juan Ignacio Roscales

Supply Chain Corporate Director
Dir. de Cadena de Suministro
Charles Kirby

Business Development Corporate Director
Dir. de Desarrollo de Negocio Corporativo
Miguel Gómez Lacabex

Extrusion and Cold Corporate Director
Dir. Corporativo de Extrusión y Frío
Celestino Danis

TECHNOLOGY TRANSFER & INDUSTRIAL DEPLOYMENT
TRANSFERENCIA DE TECNOLOGÍA E IMPLEMENTACIÓN INDUSTRIAL

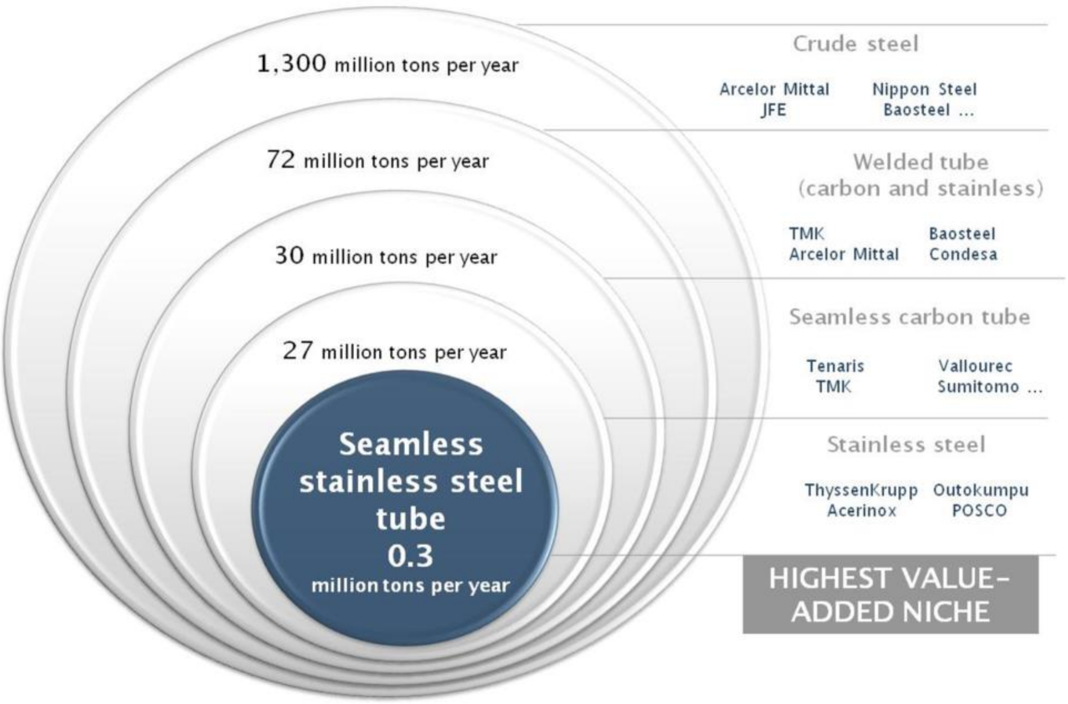
Big OD Pipes & Connections Corporate Director
Dir. Corporativo de Tuberias Grandes OD y Conexiones
Iker Azkargorta

2.6.Industry and Activity

2.6.1. Industry introduction

The market in which Tubacex operates represents a very specialised niche within the steel tubes segment. The production of seamless stainless steel tubes is around 300,000 tons/year, while the annual production of steel tubes would be over 100 million tons.

SEAMLESS STAINLESS STEEL TUBE SECTOR


1,300 million tons per year
72 million tons per year
30 million tons per year
27 million tons per year
Seamless stainless steel tube 0.3 million tons per year
Crude steel
Arcelor Mittal JFE
Nippon Steel Baosteel ...
Welded tube (carbon and stainless)
TMK Arcelor Mittal
Baosteel Condesa
Seamless carbon tube
Tenaris TMK
Vallourec Sumitomo ...
Stainless steel
ThyssenKrupp Acerinox
Outokumpu POSCO
HIGHEST VALUE-ADDED NICHE

The sub-segment of seamless stainless steel tubes is highly concentrated. Around 5 players dominate around 80% of the market. Tubacex is one of the leaders. In terms of production capacity, following the acquisition of IBF and Prakash, Tubacex would have become the first producer globally. In spite of this, Sandvik, due to its greater weight in high added-value products, would continue to be the market leader in monetary terms. After Sandvik and Tubacex, Sumitomo would be the third largest manufacturer in the segment.

Within the sub-segment of seamless stainless steel tubes, it is worth distinguishing high added-value products (mainly OCTGs and Umbilicals), given that their development gives manufacturers a number of competitive advantages:

They are products with critical function that require homologations and traceability. (Entry barrier + Switching cost).

- In spite of being components with critical function, generally they have little weight in the total capex of the projects. (Lower price sensitivity).

The main demand sector for seamless stainless steel tubes is Oil and Gas (around 50%). Therefore, we are faced with a cyclical sector leveraged as a whole to the capex of the oil companies, which at times of low investment suffers significantly in volumes. This profile, together with the high operating leverage, ends up substantially penalizing the industry's bottom accounts. Therefore, an efficient and flexible fixed cost structure is tremendously important to generate value.

The production of seamless stainless steel tubes is intensive in the use of raw materials (Nickel 25%, Scrap 35%, Chromium 12% and Molybdenum 8%). In the project market, the industry is exposed to variations in the price of these raw materials, and therefore generally makes financial hedges. In the distribution market, pipes divide the selling price into two parts: base price and alloy extra. The base price is the component in the hands of the companies, and is fixed based on the competitive moment of the industry. The alloy surcharge, on the other hand, is the component that allows the variations in the price of raw materials to be transferred to the final customer. Although there is a lag in the impact on customers, at the end of a cycle the total effect tends to be neutral.

Like other commodities, steel prices also have tendency to fluctuate as per the economic conditions, which has immediate impact on the seamless stainless steel tubes market, such surging oil market, and European Brexit issue. In mid-2014, with Brent crude above $100/barrel, OPEC decided to start a war against shale oil producers to try to regain market share against the US, which at that time was already producing more than Saudi Arabia. This strategy carried out by OPEC has generated an enormous volatility in the price of crude oil, which fell to $25/barrel. Against this backdrop, investment in oil has contracted substantially.

Although 2018 has not yet been a year of recovery in the markets of Tubacex products, the results of the exercise show strong growth thanks to the success in the strategy of positioning the company in high value-added products, as well as the maintenance of a strict policy of cost control and continuous improvement. These three pillars have allowed the Group to avoid the biggest crisis in the oil sector, after which the commercial structure, The Company's industrial and financial footing has been remarkably reinforced.

2.6.2. Strategy

Thanks to its previous strategic plan (2013-2016), Tubacex expanded its product portfolio and services, becoming little by little a supplier of tubular solutions. The new plan in which is immersed (2016-2020) has as its fundamental objective to accelerate this process and strengthen the positioning of the Group as a supplier of integral tubular solutions, with the value proposition to improve the efficiency of the projects and processes of their clients, as well as reduce their "total cost of ownership”. The evolution carried out in recent years towards products with high added value has allowed Tubacex approach their final clients, know their needs and, therefore, be in a position to take advantage of that knowledge and develop a wider offer.

The strategies of Tubacex to achieve its objectives towards its corporate vision and become a global supplier and a benchmark in innovative tubular solutions in advanced materials are the following:

- **Market positioning strategy**: In recent years the commercial structure of Tubacex has undergone a profound transformation linked to the repositioning of the Company towards the premium product sold directly to the end user and, therefore, with a different commercial strategy. The correct positioning of the Group in the market is based on a double pivot. Firstly, the correct allocation of the product to be manufactured in the plants. And secondly, by reinforcing the complete "package" offer and, finally, by betting on growing wherever customers are.

- **Business strategy**: Focus on Premium segment and permanent development of new products that help position the company in end customers, while channeling the demand for standard product through TSS.

- **Management strategy**: With the aim of increasing productivity and efficiency by promoting, the implementation of Lean methodologies in all plants (Tubacex Production System) as well as tools for the digitization of plants.

- **Development strategy**: Development of new products and services in the field of connections and ceramic coatings and welding, mainly.

- **Development strategy:** Strategy focused on the customer to improve the overall efficiency of their projects and processes by converting the most demanding needs into specific solutions of high technological value developed jointly.

Innovations as a basis

In accordance with its strategic vision, Tubacex is developing a value proposal focused on integral solutions with a high technological component for the most demanding markets.

This approach requires the development of products, technologies and capabilities that go beyond the conventional tube to the concept of solution. This more global concept is linked to the Company's ability to offer the complete set of tubular products and services capable of optimizing customers' processes and improving the efficiency of their projects. An approach that requires a network of customers, partners, suppliers, technology centers and universities working collaboratively to meet the challenges of the industry.

In recent years, Tubacex has continued to intensify its R&D activity, laying the foundations for future projects that will see the light of day over the next few years. On the other hand, it has materialized different innovative solutions in the tubular field.

2.6.3. Trends in the industry

The International Monetary Fund confirms in its latest Outlook Report for the World Economy that global expansion has weakened. World growth in 2018 is estimated at 3.7%, which will fall to 3.5% and 3.6% in 2019 and 2020, respectively.

The slowdown in business activity in the last few quarters of the year reflects a change in the environment, which has become more demanding due to the tightening of financial conditions and the erosion of confidence. To these factors must be added the maturity of the cycle in important economies, such as the United States, and the fears raised by the uncertainty about the slowdown in the Chinese economy.

After a turbulent 2018 close with sharp stock market falls that reflected doubts about the soundness of world growth in 2019, the new year has begun with greater calm. On the one hand, in the financial markets, investor sentiment improved thanks to negotiations between the United States and the United States and China to redirect its trade tensions. And, on the other hand, this sentiment was also supported by the publication of various activity indicators, which, while pointing to moderation of global growth, suggest that it will be reasonably mild.

The risks to the global outlook in 2019 stem mainly from the results of trade negotiations and the direction financial conditions will take in the coming months. If countries resolve their differences without raising more trade barriers and if market attitudes recover, greater confidence and more favourable financial conditions could reinforce each other and raise growth above the baseline forecast.

In terms of future prospects, Tubacex anticipates a year of 2019 very similar to that of 2018 in terms of results. However, taking into account the size of the projects that the Group is currently listing, and whose award is expected in the short term, it is likely that 2019 will be a record year in terms of order intake and will close with a portfolio that provides great visibility for the coming years.

2.6.4. Business Units

Tubacex customers are classified by product / activity / entry channel, having a commercial team adapted to that structure. Tubacex also operates internationally, selling its products in three main markets: Europe, Asia and North America (USA and Canada).

Tubacex has the widest dimensional range in the market, having positioned itself in recent years in a Premium product segment. This has been possible thanks to a strategy focused on growth, geographical and product diversification and its commitment to innovation.

In terms of channels, the distribution market has been particularly affected by the weakness of this market. In order to promote service and the arrival of products in this channel, in 2015 Tubacex created Tubacex Service Solutions, strongly reinforced in subsequent years, with service centres in the main business hubs (Spain, France, Austria, United States, Brazil, United Arab Emirates and India). The channel based on the direct sales to engineering and to the end customer, remains the first in the Group's total sales, in line with the Company's strategy to position itself as a global provider of tubular solutions.

Lastly, Tubacex and its Group counts with a R&D&I laboratory that extends its technology service offer provided to Group companies as well as other end-users in the field of material characterization. The Laboratory is capable of contributing to solving problems related to material behavior through a technical capacity analysis. In particular, TUBACEX R&D&I laboratory covers two major work areas: micro-structural analysis through Light Microscopy and Field Emission Scanning Electron Microscopy (FESEM); and micro/macro hardness mechanical testing. These capabilities enable us to provide additional value to studies in different fields, such as:

- Fault analysis of materials both during the manufacturing process as well as components in service; and change / solution proposals;

- Product validation and comparative studies between products;

- Statistic analysis, capacity studies and trust intervals which enable the assessment of process robustness and product uniformity;

- Coating studies (thickness measurement, percentage of porosity, etc.);

- Evaluation and distribution of properties at microscopic scale (mapping);

- In-depth micro-structural analysis. Studies of grain size distribution, precipitation, phase determination, degree of steel cleanliness according to international standards, etc.;

- Microstructural analysis of corrosion test specimens;

- Material recrystallization/deformation degree study;

- Nitriding or carburization of material surface study.

2.6.5. International expansion

During the year 2018 Tubacex has continued advancing in improving its positioning in key sectors with the signing of three important strategic alliances in markets of high expected growth. The alliance with the company Tubes 2000 for the development of nuclear energy in Egypt, the alliance with the Indian company Midhani to face the energy growth in India and the, recently announced, Joint Venture with Senaat, state investment group of Abu Dhabi, for the development of projects of Oil & Gas in the Middle East. These three alliances not only bring the Group closer to the end customer and allow diversify their portfolio, but they are also a sample of the progress of Tubacex in its goal of become the first supplier of tubular solutions in high alloys.

2.6.6. Sectors of activity

Direct sales to engineering and end customer continues to be the first channel of entry with 73% of the billing, compared to the channel of distribution. It is an indicator that reflects the success of the company in its approach to final customer with products of high technological value.

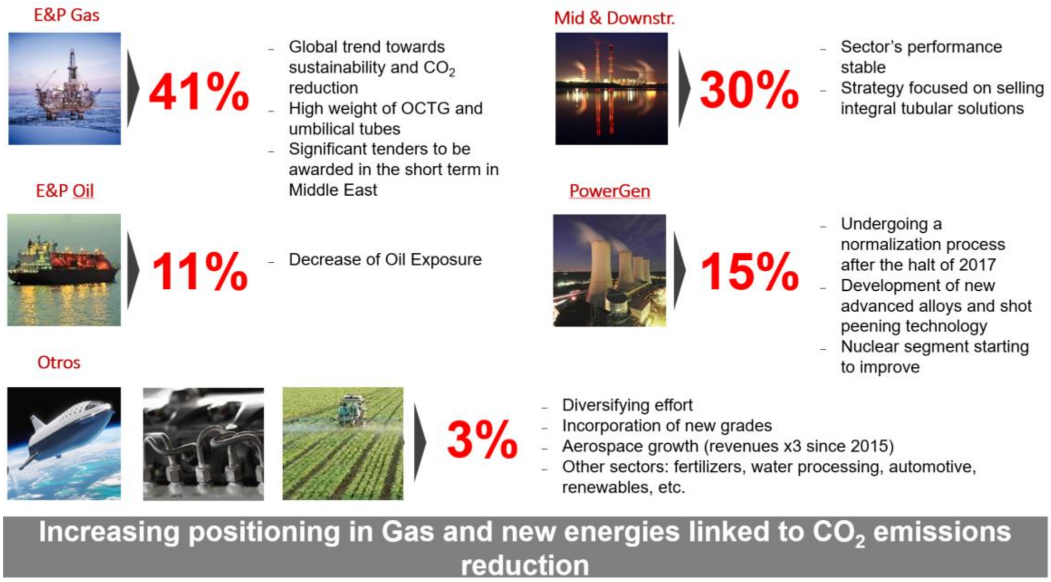
The Oil and Gas Extraction and Production sector represents 52% of the Group sales of this channel, of which 41% corresponds to Gas and 11% remaining to Oil. This important percentage is mainly due to the high production volumes of both OCTG and umbilical tubes. The OCTG tube has experienced a clear sales increase in 2018 thanks to the Iran project, supplied between March and November and currently in suspense. However, the company expects the pick up orders reach important figures with the award of very relevant orders in the Middle East throughout the present fiscal year.

The fossil electricity generation sector continues to normalize after the 2017 adjustment with China at the forefront, where Tubacex has participated in several projects. Tubacex has developed new advanced steels which, together with shot peening technology to improve their resistance, are proving to be the best solution for this demanding market. With these developments, the company is promoting the sustainability of the energy sector through the reduction of CO2 emissions.

With regard to the nuclear sector, Tubacex is noteworthy for its consortium with the Russian company Tubes 2000 to analyze jointly with the Government of Egypt collaborative avenues to supply products and services for the four units of the El Dabaa nuclear project.

The Mid and Downstream sector has shown a partial recovery in terms of awarding new projects. Specifically, the tube for furnaces of the refinery, in which Tubacex is the market leader, has experienced an increase of improvement in 2018 with outstanding growth in the Chinese market.

Sales breakdown by sector (2018)*



E&P Gas

41%

- Global trend towards sustainability and CO_2 reduction
- High weight of OCTG and umbilical tubes
- Significant tenders to be awarded in the short term in Middle East

Mid & Downstr.

30%

- Sector's performance stable
- Strategy focused on selling integral tubular solutions

E&P Oil

11%

- Decrease of Oil Exposure

PowerGen

15%

- Undergoing a normalization process after the halt of 2017
- Development of new advanced alloys and shot peening technology
- Nuclear segment starting to improve

Otros

3%

- Diversifying effort
- Incorporation of new grades
- Aerospace growth (revenues x3 since 2015)
- Other sectors: fertilizers, water processing, automotive, renewables, etc.

Increasing positioning in Gas and new energies linked to CO_2 emissions reduction

***Direct sales to engineering firms and end-users**

2.6.7. Declaration on the absence of significant changes in the prospects of the Issuer

Since the publication of the latest audited consolidated financial information as of 31 December 2018 and until the date of this Information Memorandum, there has been no material adverse change in the outlook for Tubacex.

However, between 31 December 2018 and the date of this Information Memorandum, Tubacex and its Group highlights the following facts:

- Acquisition of IBF, S.p.A.
  - On January 29, 2019, Tubacex acquired 35% of the company IBF S.p.A., of which the Company was already the shareholder of the remaining 65%. The acquisition was made for 11 million euros that, at the date of the preparation of the annual accounts, have already been disbursed.
  - The operation is part of the growth strategy set out in the Group's Strategic Plan. With this acquisition, Tubacex becomes the only seamless stainless steel tube manufacturer capable of offering the full

range of dimensions, while entering the pipe fittings market as a leading manufacturer.

- Acquisition of the Nobu Group

  - On April 25 2019, Tubacex and SENAAT announced the closing of the Nobu Group acquisition , an industrial investment group owned by the Emirate of Abu Dhabi, to support the development of energy projects in the Middle East. The Issuer has acquired Nobu Group with the objective to promote a key market with investment projects focused on developing local manufacturing capabilities, with the ambition to become one of the largest manufacturers of premium tubular solutions in the region.

  - Tubacex and SENAAT have concluded the agreement for the acquisition of the Nobu Group, a company specialising in repair, maintenance and manufacturing of components machined from stainless steel. Headquartered in Dubai, the Nobu Group is present in Saudi Arabia, Dubai and Norway and its acquisition, for a total amount of 56.7 million dollars, represents a first step in the industrial establishment in key regions.

3. Reasons for the Issue and use of proceeds

Tubacex has requested admission (incorporación) of this Programme to the MARF for the following reasons: i) to diversify sources of external financing through access to capital markets, ii) to raise funds to strengthen the financial ability of the Issuer to obtain financing at longer maturities, and iii) to benefit from the flexibility of multilateral trading facilities with lower costs.

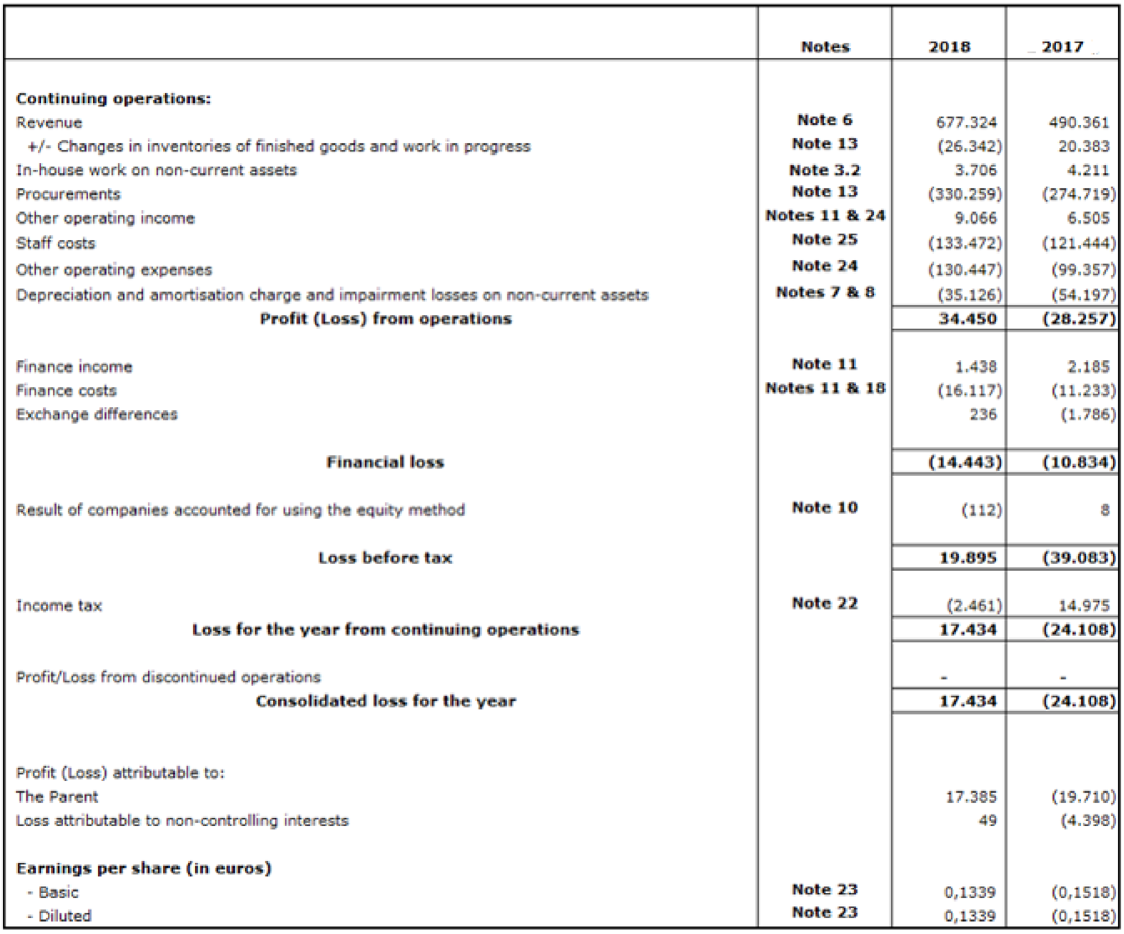
3.1. Audited historical financial information

This section includes the Consolidated Financial Statements of Tubacex Group for the years ended 31 December 2018 and 2017, which have been extracted from the audited consolidated annual accounts of the Group for the years ended 31 December 2018 and 31 December 2017, included in "**Annex 1**" and "**Annex 2**" of this Information Memorandum.

The consolidated annual accounts as of 31 December 2018 and 2017 have been prepared from the accounting records of the Group and are presented in accordance with the commercial legislation and the established rules in the General Accounting Plan approved by Royal Decree 1514/2007 and the amendments made thereto by Royal Decree 1159/2010.

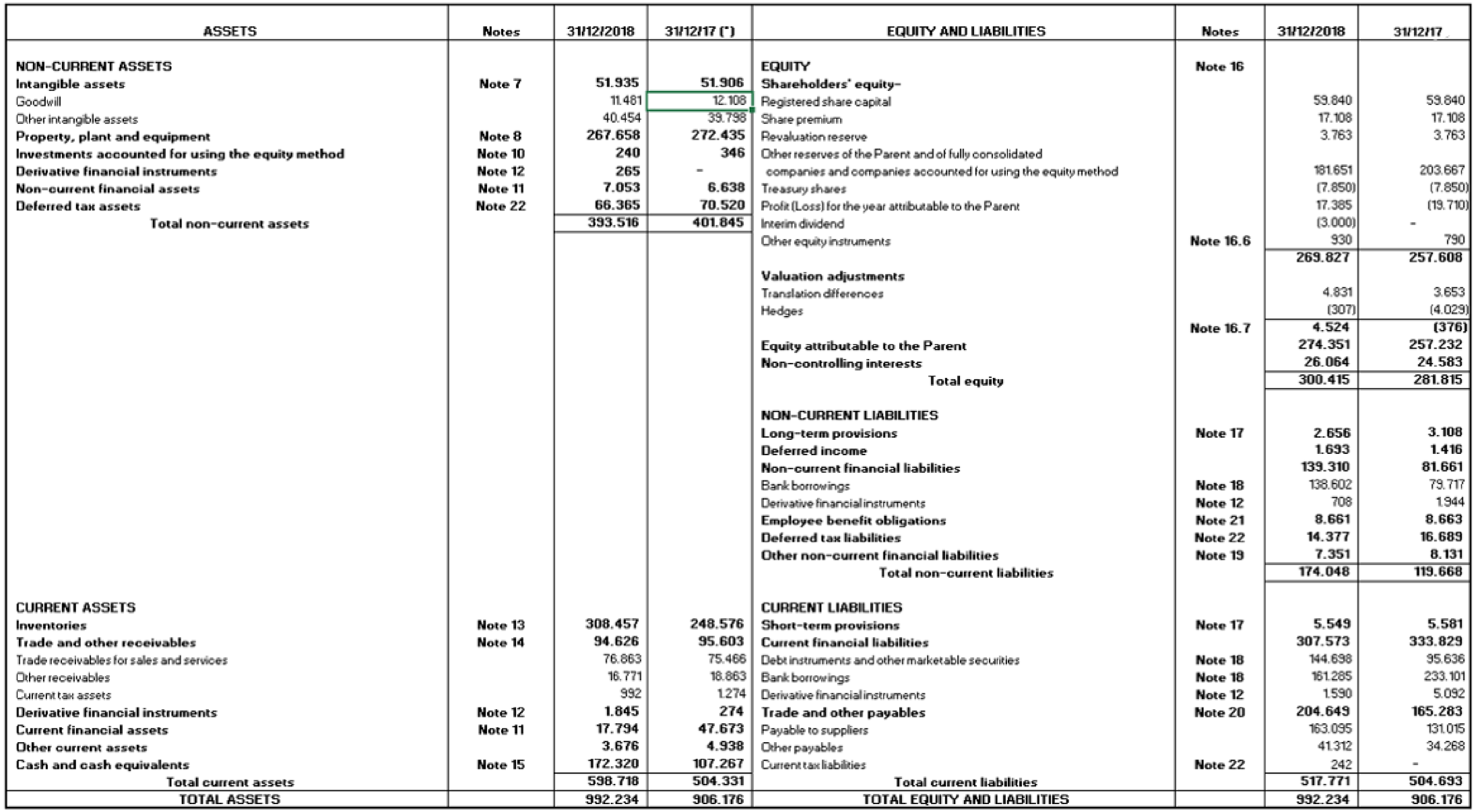
3.2. Financial Statements of the Issuer

Audited Consolidated Income Statement for the financial years ended on 31 December 2018 and 2017 (in thousands of Euros)



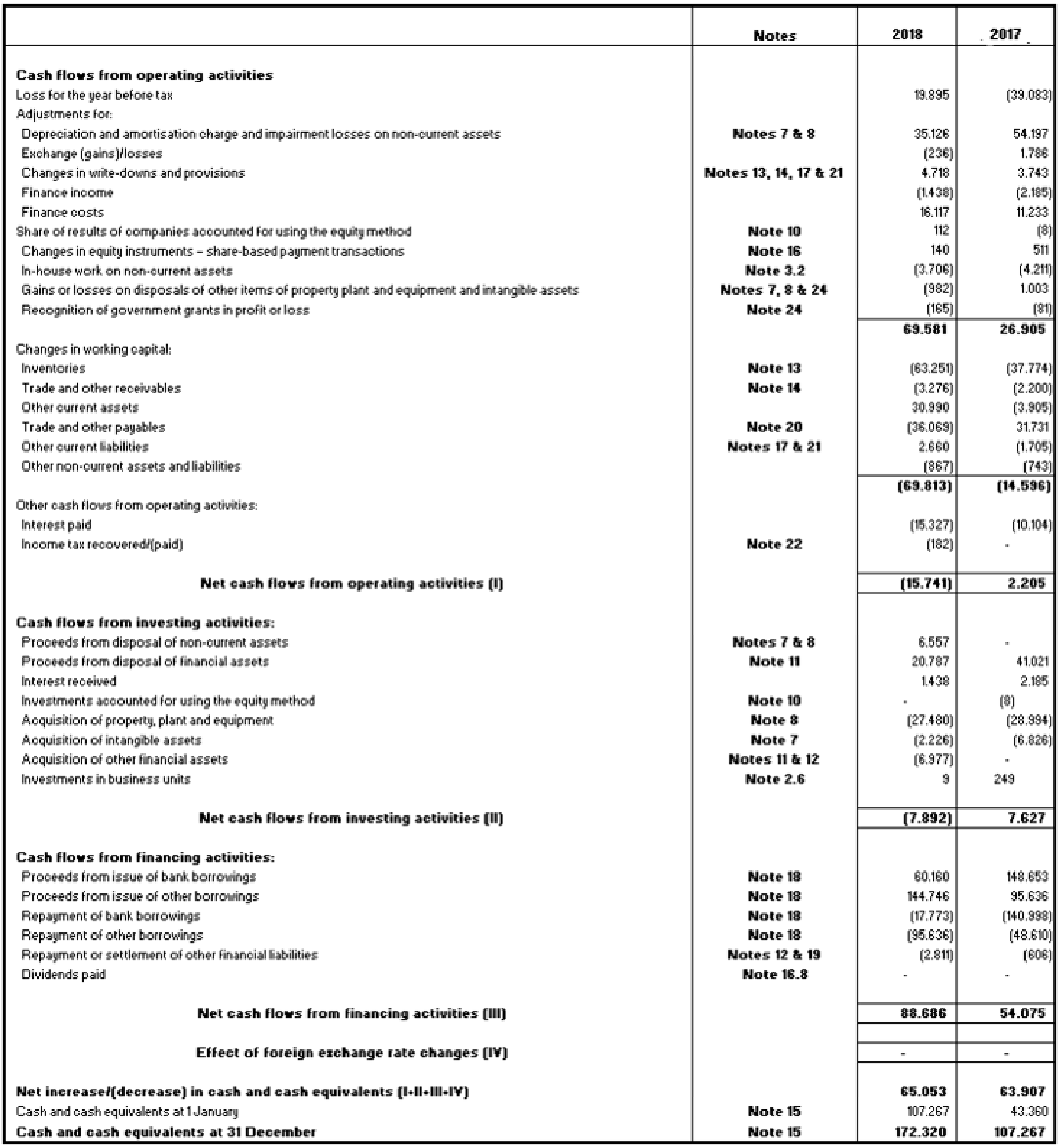
	Notes	2018	2017
Continuing operations:			
Revenue	Note 6	677.324	490.361
+/- Changes in inventories of finished goods and work in progress	Note 13	(26.342)	20.383
In-house work on non-current assets	Note 3.2	3.706	4.211
Procurements	Note 13	(330.259)	(274.719)
Other operating income	Notes 11 & 24	9.066	6.505
Staff costs	Note 25	(133.472)	(121.444)
Other operating expenses	Note 24	(130.447)	(99.357)
Depreciation and amortisation charge and impairment losses on non-current assets	Notes 7 & 8	(35.126)	(54.197)
Profit (Loss) from operations		**34.450**	**(28.257)**
Finance income	Note 11	1.438	2.185
Finance costs	Notes 11 & 18	(16.117)	(11.233)
Exchange differences		236	(1.786)
Financial loss		**(14.443)**	**(10.834)**
Result of companies accounted for using the equity method	Note 10	(112)	8
Loss before tax		**19.895**	**(39.083)**
Income tax	Note 22	(2.461)	14.975
Loss for the year from continuing operations		**17.434**	**(24.108)**
Profit/Loss from discontinued operations		-	-
Consolidated loss for the year		**17.434**	**(24.108)**
Profit (Loss) attributable to:			
The Parent		17.385	(19.710)
Loss attributable to non-controlling interests		49	(4.398)
Earnings per share (in euros)			
- Basic	Note 23	0,1339	(0,1518)
- Diluted	Note 23	0,1339	(0,1518)

Audited Consolidated Balance Sheet for the financial years ended on 31 December 2018 and 2017 (in thousands of Euros)



ASSETS	Notes	31/12/2018	31/12/17 (*)	EQUITY AND LIABILITIES	Notes	31/12/2018	31/12/17
NON-CURRENT ASSETS				EQUITY	Note 16		
Intangible assets	Note 7	51.935	51.906	Shareholders' equity-			
Goodwill		11.481	12.108	Registered share capital		59.840	59.840
Other intangible assets		40.454	39.798	Share premium		17.108	17.108
Property, plant and equipment	Note 8	267.658	272.435	Revaluation reserve		3.763	3.763
Investments accounted for using the equity method	Note 10	240	346	Other reserves of the Parent and of fully consolidated			
Derivative financial instruments	Note 12	265	-	companies and companies accounted for using the equity method		181.651	203.667
Non-current financial assets	Note 11	7.053	6.638	Treasury shares		(7.850)	(7.850)
Deferred tax assets	Note 22	66.365	70.520	Profit (Loss) for the year attributable to the Parent		17.385	(19.710)
Total non-current assets		393.516	401.845	Interim dividend		(3.000)	-
				Other equity instruments	Note 16.6	930	790
						269.827	257.608
				Valuation adjustments			
				Translation differences		4.831	3.653
				Hedges		(307)	(4.029)
					Note 16.7	4.524	(376)
				Equity attributable to the Parent		274.351	257.232
				Non-controlling interests		26.064	24.583
				Total equity		300.415	281.815
				NON-CURRENT LIABILITIES			
				Long-term provisions	Note 17	2.656	3.108
				Deferred income		1.693	1.416
				Non-current financial liabilities		139.310	81.661
				Bank borrowings	Note 18	138.602	79.717
				Derivative financial instruments	Note 12	708	1.944
				Employee benefit obligations	Note 21	8.661	8.663
				Deferred tax liabilities	Note 22	14.377	16.689
				Other non-current financial liabilities	Note 19	7.351	8.131
				Total non-current liabilities		174.048	119.668
CURRENT ASSETS				CURRENT LIABILITIES			
Inventories	Note 13	308.457	248.576	Short-term provisions	Note 17	5.549	5.581
Trade and other receivables	Note 14	94.626	95.603	Current financial liabilities		307.573	333.829
Trade receivables for sales and services		76.863	75.466	Debt instruments and other marketable securities	Note 18	144.698	95.636
Other receivables		16.771	18.863	Bank borrowings	Note 18	161.285	233.101
Current tax assets		992	1.274	Derivative financial instruments	Note 12	1.590	5.092
Derivative financial instruments	Note 12	1.845	274	Trade and other payables	Note 20	204.649	165.283
Current financial assets	Note 11	17.794	47.673	Payable to suppliers		163.095	131.015
Other current assets		3.676	4.938	Other payables		41.312	34.268
Cash and cash equivalents	Note 15	172.320	107.267	Current tax liabilities	Note 22	242	-
Total current assets		598.718	504.331	Total current liabilities		517.771	504.693
TOTAL ASSETS		992.234	906.176	TOTAL EQUITY AND LIABILITIES		992.234	906.176

Audited Consolidated Cash Flow Statements of the financial years ended on 31 December 2018 and 2017 (in thousands of Euros)



	Notes	2018	2017
Cash flows from operating activities			
Loss for the year before tax		19.895	(39.083)
Adjustments for:			
Depreciation and amortisation charge and impairment losses on non-current assets	**Notes 7 & 8**	35.126	54.197
Exchange (gains)/losses		(236)	1.786
Changes in write-downs and provisions	**Notes 13, 14, 17 & 21**	4.718	3.743
Finance income		(1.438)	(2.185)
Finance costs		16.117	11.233
Share of results of companies accounted for using the equity method	**Note 10**	112	(8)
Changes in equity instruments – share-based payment transactions	**Note 16**	140	511
In-house work on non-current assets	**Note 3.2**	(3.706)	(4.211)
Gains or losses on disposals of other items of property plant and equipment and intangible assets	**Notes 7, 8 & 24**	(982)	1.003
Recognition of government grants in profit or loss	**Note 24**	(165)	(81)
		69.581	**26.905**
Changes in working capital:			
Inventories	**Note 13**	(63.251)	(37.774)
Trade and other receivables	**Note 14**	(3.276)	(2.200)
Other current assets		30.990	(3.905)
Trade and other payables	**Note 20**	(36.069)	31.731
Other current liabilities	**Notes 17 & 21**	2.660	(1.705)
Other non-current assets and liabilities		(867)	(743)
		(69.813)	**(14.596)**
Other cash flows from operating activities:			
Interest paid		(15.327)	(10.104)
Income tax recovered/(paid)	**Note 22**	(182)	-
Net cash flows from operating activities (I)		**(15.741)**	**2.205**
Cash flows from investing activities:			
Proceeds from disposal of non-current assets	**Notes 7 & 8**	6.557	-
Proceeds from disposal of financial assets	**Note 11**	20.787	41.021
Interest received		1.438	2.185
Investments accounted for using the equity method	**Note 10**	-	(8)
Acquisition of property, plant and equipment	**Note 8**	(27.480)	(28.994)
Acquisition of intangible assets	**Note 7**	(2.226)	(6.826)
Acquisition of other financial assets	**Notes 11 & 12**	(6.977)	-
Investments in business units	**Note 2.6**	9	249
Net cash flows from investing activities (II)		**(7.892)**	**7.627**
Cash flows from financing activities:			
Proceeds from issue of bank borrowings	**Note 18**	60.160	148.653
Proceeds from issue of other borrowings	**Note 18**	144.746	95.636
Repayment of bank borrowings	**Note 18**	(17.773)	(140.998)
Repayment of other borrowings	**Note 18**	(95.636)	(48.610)
Repayment or settlement of other financial liabilities	**Notes 12 & 19**	(2.811)	(606)
Dividends paid	**Note 16.8**	-	-
Net cash flows from financing activities (III)		**88.686**	**54.075**
Effect of foreign exchange rate changes (IV)		-	-
Net increase/(decrease) in cash and cash equivalents (I+II+III+IV)		**65.053**	**63.907**
Cash and cash equivalents at 1 January	**Note 15**	107.267	43.360
Cash and cash equivalents at 31 December	**Note 15**	**172.320**	**107.267**

3.3. Audit of historical annual financial information

3.3.1. Statement that historical financial information has been audited. If audit reports on the historical financial information have been refused by the auditors or if they contain qualifications or disclaimers, such qualifications or disclaimers must be reproduced in full, explaining the reasons.

The historical consolidated financial information of Tubacex and its Group corresponding to the years 2018 and 2017 has been audited by Deloitte and the audit reports thereon contained no qualifications.

3.3.2. Indication of other information in the Information Memorandum which has been audited by the auditors

Non-applicable.

3.3.3. Where financial data in the Information Memorandum is not extracted from the audited Financial Statements of the Issuer, you must declare the source of the data and state that the data is unaudited

Not applicable

3.4. Age of the most recent financial information

The most recent consolidated financial information contained in this Information Memorandum refers to the audited financial information as of and for the year ended 31 December 2018.

3.5. Judicial, administrative and arbitration proceedings

As of the date of this document, Tubacex is not involved in any material civil or administrative legal proceedings.

VII. DESCRIPTION OF THE NOTES

1. Total amount of the securities issued/admitted to trading

The maximum nominal amount of this Programme will be ONE HUNDRED MILLION EUROS (100,000,000€). The securities to be issued under this Programme will be senior unsecured simple notes (the "**Notes**"). Regarding the terms and conditions of the securities, the Notes under the Programme will be issued pursuant to the template attached as "**Annex 3**" hereto (the "**Final Terms**"). This limit shall not be exceeded at each issue date by adding to the nominal outstanding balance in euros issued, the euro equivalent (at the issue date) of the outstanding balance issued in US dollars, plus the nominal amount in euros or its equivalent in euros (in the case of US dollars) that is intended to be issued at that time.

The Final Terms of each issue will specify the nominal and total effective amount of the Notes admitted to trading and the nominal and effective amount and number of Notes to be admitted.

2. Date of issue of the Notes

The Final Terms of each issue of Notes will establish the envisaged dates of issue of the Notes, which may not exceed the validity period of this Programme.

The validity of this Programme is one (1) year as from the admission (*incorporación*) of the same to MARF.

3. Form and Denomination

The Notes will be in uncertified, dematerialised book-entry form (anotaciones en cuenta), subject to Royal Decree 878/2015 of 2 October on compensation, liquidation and recording of marketable securities represented by book-entries, on the legal regime of central securities depositories and central counterparties and on the transparency requirements of the issuers of securities admitted to trading on an official secondary market, as amended by Royal Decree 827/2017 of September 1 (*Real Decreto 878/2015, de 2 de octubre sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de* *valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial en su redacción dada por el Real Decreto 827/2017 de 1 de septiembre*) ("**RD 878/2015**").

Each Note will have a nominal value of EUR 100,000 or USD 100,000 depending on the currency chosen at any given time (the "**Authorised Denomination**").

4. Status of the Notes

a) Status of the Notes:

The Notes constitute direct, senior, unconditional, unsubordinated and, subject to the provisions of Condition 8.2 (*Negative Pledge*), unsecured obligations of the Issuer which (unless they qualify as subordinated credits under Article 92 of the Insolvency Law) in the event of the insolvency (*concurso*) of the Issuer will, at all times, rank *pari passu* among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application, and in particular, save for such payment obligations that are preferred by law under Articles 84, 90 and 91 of the Insolvency Law.

In the event of the insolvency (*concurso*) of the Issuer, under the Insolvency Law, and assuming that the Notes remain unsecured, claims relating to the Notes (unless they qualify as subordinated credits under Article 92 of the Insolvency Law) will be ordinary credits (*créditos ordinarios*) as defined in the Insolvency Law. Ordinary credits rank below credits against the insolvency estate (*créditos contra la masa*) and credits with a privilege (*créditos privilegiados*). Ordinary credits rank above subordinated credits. Accrued and unpaid interest due in respect of the Notes at the commencement of an insolvency proceeding (*concurso*) of the Issuer will qualify as subordinated credits. Under Spanish law, accrual of interest on the Notes shall be suspended from the date of any declaration of insolvency.

5. Price of the Notes

The Notes may be issued at par value or for a lower or higher amount, as established in the Final Terms.

6. ISIN Code

The information relating to the ISIN Code (International Securities Identification Number), or any other codes used internationally, of each of the issues made under this Programme will appear in the Final Terms of the relevant issue.

7. Register, Title and Transfers

(a) *Registration*: The Notes issued under this Programme will be registered with the Spanish *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal,* with its registered address at Plaza de la Lealtad, 1, Madrid ("**Iberclear**") that records all aggregate securities balances for each of its participating entities (*entidades participantes*) (the "**Iberclear Members**"). Each Noteholder's (as defined below) title to the corresponding principal amount of the Notes is set out in the registries maintained by the respective Iberclear Member or the Spanish Central Registry itself if the holder is an Iberclear Member.

(b) *Title*: Title of the Notes issued under this Programme will be evidenced by book-entry forms (*anotaciones en cuenta*), and each person shown in the registries maintained by the respective Iberclear Members, as being a holder of Notes shall be (except otherwise required by the applicable Spanish law) considered the holder of the principal amount of the Notes recorded therein. The "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the book-entry forms (*anotaciones en cuenta*) at Iberclear or, as the case may be, the relevant Iberclear Member accounting book and "**Noteholder**" shall be construed accordingly. One or more certificates (each, a "**Certificate**") attesting to the relevant Holder's holding of the Notes in the relevant registry will be delivered by the relevant Iberclear Member or, where the Holder is itself an Iberclear Member, by Iberclear (in each case, in accordance with the requirements of Spanish law and the relevant Iberclear Member's or, as the case may be, Iberclear's procedures) to such Holder upon such Holder's request.

(c) *Transfers*: The Notes issued under this Programme will be issued without any restrictions on their transferability. Consequently, the Notes may be transferred and title to the Notes may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the case may be, the relevant Iberclear Member) upon registration in the relevant registry of each Iberclear Member and/or the Iberclear itself, as applicable. Each Holder will be treated (except as otherwise required by Spanish law) as the legitimate owner of the relevant Notes for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or annotation of, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder.

8. Covenants

The Notes to be issued under this Programme will contain the following covenants:

8.1. Pari passu

The Issuer undertakes to maintain the Notes and the rights deriving therefrom in favour of the Noteholders at least with the same preferences, privileges and rank as those that derive or may derive for other unsecured and unsubordinated creditors by reason of agreements the Issuer has entered into or may enter into in the future, unless otherwise authorised by the Noteholders, save for those preferences, privileges and ranks created by operation of law.

8.2. Negative Pledge

The Issuer undertakes to refrain from establishing or permitting the establishment of any Security Interest, attachments, charges or encumbrances of any kind in respect of any of the its assets, whether current or future, with the exception of the Permitted Security.

"**Permitted Security Interest**" means:

(a) any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its financing arrangements for the purposes of netting debit and credit balances, or a transaction over cash accounts securing cash pooling arrangements;

(b) any Security Interest in existence on the issue date to the extent that it secures Indebtedness outstanding on such date;

(c) any Security Interest over or affecting any asset existing at the time it was acquired by a member of the Group after the issue date;

(d) any Security Interest over or affecting any asset of any company existing at the time it becomes a member of the Group after the issue date;

(e) any Security Interest for tax being challenged diligently and in good faith, taking into account applicable time and grace periods for any such challenge;

(f) any Security Interest created by or resulting from any litigation or legal proceeding;

(g) the discounting of bills or notes on arm's length commercial terms and in the ordinary course of business provided that such bills or notes constitute Permitted Indebtedness;

(h) any Security Interest created for the benefit of (or to secure) the Notes or a guarantee;

(i) any Security Interest securing indebtedness the principal amount of which (when aggregated with the principal amount of any other indebtedness which has the benefit of a Security Interest given by any member of the Group other than any permitted under paragraphs (a) to (h) above inclusive) does not exceed 25M.

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest.

8.3. Change of control

Upon the occurrence of a Change of Control, each Noteholder may, during the Change of Control Period, notify the Issuer, that it requires the early redemption of some or all of its Notes. The Issuer will redeem in whole (but not in part) the Notes subject of the notice on the Change of Control Redemption Date at a price equal to 101 percent of their principal amount plus accrued and unpaid interest up to (but excluding) the Change of Control Redemption Date.

A Change of Control shall be notified to the Noteholders in accordance with Condition 8.3 by the Issuer within 14 calendar days of its occurrence (a "**Change of Control Notice**"). Any such notification will indicate the Change of Control Period and the Change of Control Redemption Date. In order to exercise the option contained in this Condition 8.3, the holder of a Note must, on any Business Day during the Change of Control Period, give notice to any Paying Agent (a "**Put Option Notice**") of such exercise. A Put Option Notice once given shall be irrevocable.

"**Change of Control**" shall occur in respect of the Issuer upon (i) one or more persons, acting individually or in concert, acquire Control, directly or indirectly, of the Issuer; or (ii) the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer taken as a whole.

"**Control**" means:

(a) the acquisition or control of more than 50 per cent. of the voting rights (the right generally to vote at a general meeting of shareholders of such person); or

(b) the right to appoint and/or remove all or the majority of the members of the Issuer's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise and "controlled" shall be construed accordingly.

"**Change of Control Period**" means the period commencing on the occurrence of a Change of Control and ending 60 calendar days following the Change or Control, or if later, 60 calendar days following the date on which a Change of Control Notice is given to Noteholders.

"**Change of Control Redemption Date**" means the date specified by the Issuer in the Change of Control Notice, being a date not earlier than five nor later than 10 Business Days after expiry of the Change of Control Period.

8.4. Limitation on Additional Indebtedness

So long as any Note remains outstanding, neither the Issuer nor any of its Subsidiaries will, after the Issue Date, incur any additional Indebtedness (other than Permitted Indebtedness), if on the date of the incurrence of such additional Indebtedness, the Consolidated Interest Coverage Ratio is greater than or equal to 3.0 to 1.0 determined on a pro forma basis, assuming for these purposes that such additional Indebtedness had been incurred, and the net proceeds thereof applied, on the first day of the applicable Testing Period.

"**Calculation Date**" means, the last day of the most recently completed financial quarter.

"**EBITDA**" in relation to the Consolidated Financial Statements, the profit from operations (*resultado de explotación*), as that term is defined in the Borrower's financial statements, adding the depreciation and amortization charge. If during a relevant testing period a company or entity were acquired and became a member of the Group for the purposes of GAAP, for the purposes of calculating the EBITDA on the corresponding date of calculation referred to such relevant testing period it will be considered that the individual EBITDA of the acquired company for that relevant testing period is the EBITDA of such company generated since the beginning of such relevant testing period. The provision under this paragraph is only for the purposes of avoiding the accounting effect of GAAP in the Financial Covenants as regards considering all the debt of the acquired company but only its EBITDA as from the date of its acquisition by the Group.

"**Issue Date**", means for the purposes of the covenants, the first issue date of Notes under this Programme.

"**Consolidated Interest Coverage Ratio**" means as of any Calculation Date, the ratio of (x) the EBITDA for the relevant Testing Period preceding such Calculation Date of determination to (y) the Net Interest Expense accrued during the relevant Testing Period.

"**Net Interest Expense**" means, in relation to the Consolidated Financial Statements, as applicable, costs (*gastos financieros*) minus financial income *(ingresos financieros*) as defined in the Borrower's financial statements.

"**Permitted Indebtedness**" means:

(a) Indebtedness incurred or subsisting under, or as a result of, any amendment, supplement, or other modification from time to time, or refinancing, restructuring, renewal or repayment from time to time (whether in whole or in part, whether with the original banks, lenders or institutions or other banks, lenders or institutions or otherwise) of any existing Indebtedness as of the Issue Date;

(b) Indebtedness under the Notes and (without double-counting) any Indebtedness outstanding on the Issue Date;

(c) Indebtedness of a Person incurred and outstanding on the date on which such Person was directly or indirectly acquired by the Issuer after the Issue Date or is merged, consolidated, amalgamated or otherwise combined with the Issuer;

(d) Any refinancing of any Permitted Indebtedness.

"**Testing Period**" means, with respect to any Calculation Date, the last twelve (12) months used for the calculation to be made at such Calculation Date.

8.5. Limitation on Investments

The Issuer will, and will permit or procure that the Subsidiaries, only make Investments if at the time of such Investment all the following conditions are met:

i. that no Event of Default has occurred or will occur as a consequence of such Investment;

ii. the relevant Investment is in a Permitted Business.

"**Investment**" means with respect to any Person, all direct or indirect investments by such Person in other Persons (including Subsidiaries) in the forms of loans (including guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, or securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with the relevant accounting principles.

"**Permitted Business**" means (a) any businesses, services or activities engaged in by the Issuer or any of its Subsidiaries on the Issue Date (each a "**Permitted Activity**"); and (b) any businesses, services and activities engaged in by the Issuer or any of its Subsidiaries that are related, complementary, incidental, ancillary or similar to any Permitted Activity or are extensions or developments of any Permitted Activity.

8.6. Distributions

So long as any Note remains outstanding, the Issuer shall not pay, make or declare any dividend or other Distribution (in kind or in cash) exceeding fifty percent (50%) of the Net Income.

8.7. Sale of Assets

The Issuer will not, and will not cause or permit any of its Subsidiaries to, sell or otherwise transfer out of the Group all or a substantial part of the Group's assets if such transaction would result in a Material Adverse Effect.

"**Material Adverse Effect**" mean a material adverse effect on the business, assets or financial condition of the Group, which affects (i) the ability of the Issuer to comply with its payment obligations under the Notes or (ii) the validity or enforceability of the Notes.

8.8. Limitation on Structural Modifications

So long as any Note remains outstanding, the Issuer will not pass a resolution for the winding-up (liquidación), dissolution (disolución), reconstruction, amalgamation, reorganisation, merger or consolidation with or into another Person (a "**Structural Modification**") of the Issuer, unless such Structural Modification is constrained by law.

For the avoidance of doubt, this covenant will not apply to any Structural Modification among the Issuer and the Subsidiaries, being the company subsisting the Issuer.

8.9. Information and Reports

So long as any Notes issued under this Programme are outstanding, the Issuer shall provide the Commissioner (which information shall be available to Noteholders at the specified office of the Commissioner):

i. as soon as the same become available, but in any event within 120 days after the end of each of its financial year, a copy of its audited consolidated financial statements for that financial year, starting with the financial year ending 31 December 2019;

ii. promptly after the occurrence of a material acquisition, disposition, restructuring of the Issuer and its Subsidiaries taken as a whole or change in auditors or any other material event of the Issuer and its Subsidiaries taken as a whole, a copy of each notice provided to the MARF in accordance with applicable regulation containing a description of such event.

For clarification purposes, the Commissioner assumes no responsibility for the authenticity, accuracy or correctness of the information, reports or certifications provided by the Issuer.

9. Interest

The Notes might be issued with fixed or variable interest rate, as determined in the relevant Final Terms (the "**Interest Rate**"). Interest Rate shall accrued from the disbursement date of each issue until its maturity date and subject as provided in Condition 11 (*Payments*).

Each Note will cease to bear interest when such Note is redeemed or repaid pursuant to Condition 10 (*Redemption and Purchase*) or Condition 15 (*Events of Default*), from the due date for redemption thereof unless, upon due presentation thereof, payment of the principal amount of the Notes is improperly withheld or refused, in which event interest will continue to accrue at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder, and (ii) the 7 (seven) days after the Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Holders under these Conditions).

If interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, it shall be calculated by applying the Interest Rate to the Authorised Denomination, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) where:

> "**Day Count Fraction**" means in respect of any period the number of days in the relevant period, from and including the date on which interest begins to accrue up to but excluding the date on which it falls due, divided by the number of days in the Regular Period in which the relevant period falls; and
>
> "**Regular Period**" means each period from and including the issue date under each issue of Notes or any interest payment date to (but excluding) the next interest payment date.

Therefore, in accordance with the abovementioned, the interest of the Notes will be specify in the Final Terms. The interest payment dates of each issue of Notes, which shall be monthly, quarterly, semiannually or annually, and if applicable, the existence of any irregular periods will be set forth in the relevant Final Terms.

If variable Interest Rate is specified in the relevant Final Terms, the Interest Rate shall be the sum of the EURIBOR/LIBOR plus the Margin specified in the Final Terms. Notwithstanding the above, the Final Terms may also include floor and/or cap clauses to the Interest Rate.

In case the EURIBOR/LIBOR does not appear on the relevant page or if the relevant screen page is unavailable, the Paying Agent will (i) request each of the Reference Banks to provide a quotation of the EURIBOR/LIBOR on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and (ii) determine the arithmetic mean of such quotations; and if fewer than two such quotations are provided as requested, the Paying Agent will determine the arithmetic mean of the rates (being the nearest to the EURIBOR/LIBOR, as determined by the Calculation Agent) quoted by major banks in the principal financial centre of the specified currency, selected by the Paying Agent, at approximately 11.00 a.m. on the first day of the relevant Interest Period for loans in euros/usd to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time.

"**EURIBOR**" means, in respect of any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (as at the date of the Programme, Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor).

"**LIBOR**" means, in respect of any specified period, the interest rate benchmark known as the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Thomson Reuters screen (or any replacement Thomson Reuters page which displays that rate).

"**Margin**" has the meaning given in the relevant Final Terms.

"**Interest Determination Date**" has the meaning given in the relevant Final Terms.

"**Reference Banks**" has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Paying Agent in the market that is most closely connected with the EURIBOR/LIBOR.

10.Redemption and Purchase

(a) *Final Redemption*: Unless previously purchased and cancelled or redeemed as herein provided, the Notes will be redeemed at their principal amount (or if applicable, at the price stated in the Final Terms) on the relevant maturity date or on the date specifically determined in the Final Terms of the particular issue which shall range between 1 and 10 years. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 10.

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving no less than 30 and no more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Commissioner that:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 14 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Commissioner:

(A) a certificate signed by a representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Commissioner of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Commissioner shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders.

For avoidance of doubt, the Commissioner assumes no responsibility for the authenticity, accuracy or correctness of any information submitted by the Issuer pursuant to this information memorandum or the documentation relating to the Issues. Nor does it assume any responsibility arising from the Issuer's failure to comply with any of its obligations in relation to the issues.

Upon the expiry of any such notice as is referred to in this Condition 10 (b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10.

(c) *Optional Redemption.* The Issuer may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Notes, in an amount not less than five percent (5%) of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at the Notes Breakage Cost Amount. The Issuer will give each Noteholder written notice of each optional prepayment under this Section 10 (c) not less than 10 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Notes to be prepaid on such date, the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and an estimate of Notes Breakage Cost Amount.

"**Notes Breakage Costs Amount**" means an amount equal to the higher of: (i) the principal amount outstanding of the relevant Notes (or as the case may be, the relevant part of it) as at the relevant redemption date, together with accrued but unpaid interest to such date; and (ii) the sum of the present values at the relevant redemption date of the outstanding payments of principal and interest under the Notes to (and including) the the relevant maturity date (excluding accrued but unpaid interest to the Redemption Date), computed by a suitably qualified financial institution appointed by the Issuer using a discount rate equal to the Reference Rate as of the redemption date and assuming the relevant Notes would otherwise have been redeemed on their scheduled maturity date.

"**Reference Rate**" means the bid-side rate for the fixed leg of a hypothetical interest rate swap with a notional profile equal to the semi-annual interest that would be payable on the Notes (had the redemption not taken place), with the same payment dates as the Notes and a floating leg of six-month EURIBOR with no spread and where such hypothetical interest rate swap is between fully collateralised market counterparties plus the Applicable Make-Whole Spread. The Reference Rate shall be determined by a suitably qualified financial institution appointed by the Issuer with the prior written approval of the Commissioner using its standard valuation methodology as at the date of calculation.

"**Applicable Make-Whole Spread**" means the make-whole spread determined in the relevant Final Terms.

(d) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Final redemption*), (b) (*Redemption for tax reasons) and (c) (Optional Redemption)* of this Condition 10, except in accordance with Condition 10 (e) below.

(e) *Purchase*: Subject to compliance with applicable laws and regulations, each of the Issuer or any of its Subsidiaries, may at any time purchase Notes in the following conditions:

(a) through a tender offer directed to all Noteholders at any price, or

(b) on the open market at any price.

Such Notes may be held, re-sold, or, at the option of the relevant purchaser, cancelled and while held by or on behalf of the Issuer or any such Subsidiary as treasury shares, shall not entitle the Holder to vote at any meetings of the relevant Syndicate of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Syndicate of Noteholders or for the purposes of Condition 18 (*Syndicate of Noteholders*).

(f) *Cancellation*: All Notes so redeemed shall be cancelled and may not be reissued or resold. Notes purchased by the Issuer or any of its Subsidiaries may, at the option of the relevant purchaser, be cancelled.

(g) *Notice of Redemption*: All Notes in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

11.Payments

(a) *Principal and Interest*: Payments of principal and interest shall be made by transfer to a euro/USD account, as applicable (or other account to which Euros/USD may be credited or transferred) of the relevant Noteholder maintained by or on behalf of it with a bank that processes payments in a city in which banks have access to the TARGET2 system, details of which appear in the records of Iberclear or, as the case may be, the relevant Iberclear Member at the close of business on the day immediately preceding the relevant interest payment date or the maturity date, as applicable, on which the payment of principal and interest as the case may be, falls due. Noteholders must rely on the procedures of Iberclear or, as the case may be, the relevant Iberclear Member to receive payments in respect of the relevant Notes. Neither the Issuer nor the Paying Agent will have any responsibility or liability for the records relating to payments made in respect of the Notes.

(b) *Payments subject to fiscal laws*: All payments in respect of the Notes issued under the Programme are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) *Payments on business days*: Where payment is to be made by transfer to a euro/USD account (or other account to which Euros/USD may be credited or transferred), payment instructions (for value on the due date, or, if the due date is not a business day, for value on the next succeeding business day) will be initiated on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph "business day" means a day (other than a Saturday or Sunday) which is a TARGET Settlement Day.

(d) *Interpretation*: In these Conditions:

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; and

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in Euros.

12.Placement of each issue under the Programme

Regarding the Notes to be traded on the MARF (*Mercado Alterantivo de Renta Fija*) under this Information Memorandum, the Issuer has initially appointed Banca March, S.A. and Norbolsa Sociedad de Valores, S.A.; Ahorro Corporación Financiera Sociedad de Valores y Bolsa, S.A.; and Banco de Sabadell, S.A. as Placement Entities. During the term of the Information Memorandum, the Issuer can freely appoint other placement entities of the respective Notes (jointly with any other placement entities the "**Placement Entities**"); all of which will be stated, as the case may be, in the Final Terms of each issue.

13.Further issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes issued under any previous Final Terms in all respects (except for the first payment of interest) and also the same Syndicate of Noteholders and Commissioner so as to be consolidated, and form a single series, with the relevant issue of Notes (as detailed in the Final Terms).

14.Taxation

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law (being a "**Gross-Up Event**").

If a Gross-Up Event occurs, the Issuer shall pay such additional amounts ("**Additional Amounts"**) as may be necessary to ensure that the net amount received by each Noteholder after such withholding or deduction (including any withholding or deduction in respect of any Additional Amounts) shall not be less than the amount the Noteholder would have received if such Taxes had not been withheld or deducted, except that no such Additional Amounts shall be payable in respect of:

(a) any Note presented for payment by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Kingdom of Spain other than the mere holding of the Note; or

(b) any Note presented for payment by or on behalf of a Holder who fails to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such Holder, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the taxing jurisdiction of the Issuer as a condition to relief or exemption from such taxes; or

(c) any Note presented for payment by or on behalf of an individual resident for tax purposes in the Kingdom of Spain if the Spanish tax authorities determine that payments made to such individuals are not exempt from Spanish withholding tax and require a withholding to be made; or

(d) any Note presented for payment by or on behalf of a Holder who is a fiduciary, a partnership, a limited liability company or anything other than the sole beneficial owner of that payment, to the extent to which that payment would be required by the laws of Spain to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to any additional amounts had it been the holder; or

(e) any Note where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(f) any Note presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent in a member state of the European Union; or

(g) any Note presented for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days; or

(h) any taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Internal Revenue Code of 1986 (FATCA) (or any amended or successive version of such sections that is substantively comparable and not materially more onerous to comply with), any regulations promulgated there under, any official interpretations thereof or any agreements entered into in connection with the implementation thereof.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due, or (2) if the full amount payable has not been received in a city in which banks have access to the TARGET2 by the Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 14 or any undertaking given in addition to or in substitution of this Condition 14.

15. Events of Default

If any of the following events occur or is ongoing:

(a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes within fourteen days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within twenty one days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof to the Issuer; or

(c) *Cross-default of Issuer*:

(i) any Indebtedness of the Issuer is not paid when due (*vencida, líquida y exigible)* or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes due and payable (*vencida, líquida y exigible)* prior to its stated maturity otherwise than at the option of the Issuer or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness;

provided that the aggregate amount of the Indebtedness, guarantees or indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred, individually or in the aggregate equals or exceeds EUR 5,000,000 (or its equivalent in any other currency or currencies); or

(d) *Enforcement proceedings*: a distress, attachment, execution, or other legal process is levied, enforced or sued out, on or against all or a material part of the property, assets or revenues of the Issuer and is not discharged or stayed within 90 days provided that individually or in aggregate the amount of property, assets and/ or revenues involved in any such distress, attachment, execution or legal process equals or exceeds EUR 10,000,000; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed to the whole or a substantial part of the undertaking, assets and revenues of the Issuer in respect of an obligation the principal amount of which equals or exceeds EUR 10,000,000; or

(f) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer (otherwise than for the purposes of or pursuant to an amalgamation, reorganization or restructuring whilst solvent, or as provided in Condition 8.8 *(Limitation on Structural Modification*)); or

(g) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order to (i) enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes (ii) ensure that those obligations are legal, valid, binding and enforceable and (iii) make the Notes admissible as evidence in the courts of the Kingdom of Spain; or

(h) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of their obligations under or in respect of the Notes; or

(i) *To be delisted*: if the Notes cease to be listed on any multilateral trading facility of the European Union,

then any Noteholder may, by notice in writing given to the Issuer by (i) the Commissioner acting upon a resolution of the Syndicate of Noteholders, in respect of all Notes, or (ii) unless there has been a resolution to the contrary by the Syndicate of Noteholders, any Noteholder in respect of such Note, declared the Notes immediately due and payable whereupon it shall become immediately due and payable at its principal amount, together with accrued interest, without further formality.

16.Prescription

Claims for principal and interest shall become void unless made within a period of 5 years (in the case of principal and interest) after the date on which the payment in question first becomes due.

17.Paying Agent

The financial service of the debt in relation to each issue of Notes will be carried out by Banca March, S.A. (the "**Paying Agent**"). In acting under the relevant agency agreement and in connection with the Notes, the Paying Agent acts solely as agent of the Issuer, and does not assume any obligations or relationship of agency or trust for or with any of the Noteholders.

The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor agent and additional or successor agents *provided, however, that* the Issuer shall at all times maintain (a) an agent, and (b) so long as the Notes are listed on a multilateral trading facility, secondary market, there will at all times be an Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant multilateral trading facility or secondary market.

Notice of any change in the Paying Agent or in its specified offices shall promptly be given to the Noteholders.

18.Syndicate of Noteholders, Modification and Waiver

Each issuance of Notes shall foresee the incorporation of a Syndicate of Noteholders in accordance with the following terms:

(a) *Syndicate of Noteholders*: Noteholders shall meet in accordance with certain regulations governing the Syndicate of Noteholders (the "**Regulations**"). The Regulations contain the rules governing the Syndicate of Noteholders and the rules governing its relationship with the Issuer.

Noteholders shall, by virtue of purchasing and/or holding Notes, be deemed to have agreed to: (i) the appointment of the relevant Commissioner; and (ii) become a member of the Syndicate of Noteholders.

The Commissioner appointed by the Syndicate of Noteholders of the first issue will also act as Commissioner for any other future issues under the Programme.

The Issuer may, with the consent of the Commissioner, but without the consent of the Noteholders, amend these Conditions to correct a manifest or proven error or to make amendments of a formal, minor or technical nature or to comply with mandatory provisions of law.

In addition to the above, the Issuer and the Noteholders, the latter by means of a resolution of the Syndicate of Noteholders, may agree to any modification, whether material or not, of these Conditions and any waiver of any breach or proposed breach of these Conditions.

For the purposes of these Conditions:

> "**Commissioner**" means the *comisario* as this term is defined under the Spanish Corporations Law (*Ley de Sociedades de Capital*) of the Syndicate of Noteholders; and
>
> "**Syndicate of Noteholders**" means the *sindicato* as this term is described under the Spanish Corporations law (*Ley de Sociedades de Capital*).

In accordance with article 425 of the Spanish Corporations law (*Ley de Sociedades de Capital*), the General Meeting shall approve the resolutions by an absolute majority of the votes issued.

As an exception, the amendment of the term or the reimbursement of the nominal value of the Notes shall be approved by two-thirds of the outstanding Notes.

(b) *Notification to the Noteholders: Any modification, waiver or authorisation* in accordance with this Condition 18 shall be binding for the Noteholders and shall be communicated by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 19 (*Notices*).

(c) The template text of the Regulations of each Syndicate of Noteholders to be incorporated under each relevant issue of Notes is as follows:

REGLAMENTO

*A continuación se recoge el Reglamento del Sindicato de Bonistas de la Emisión de bonos de Tubacex, denominada "EMISIÓN DE BONOS UNSECURED TUBACEX, S.A. [introducir fecha concreta de la emisión]" (la "**Emisión**").*

En caso de discrepancia la versión española prevalecerá.

TÍTULO I

CONSTITUCIÓN, DENOMINACIÓN, OBJETO, DOMICILIO Y DURACIÓN DEL SINDICATO DE BONISTAS.

ARTÍCULO 1°. – CONSTITUCIÓN

Con sujeción a lo dispuesto en el Capítulo IV del Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital (la "Ley de Sociedades de Capital"), una vez se suscriban y desembolsen los Bonos, quedará constituido un sindicato de los

REGULATIONS

*The Regulations that follow correspond to the Syndicate of Noteholders of the Notes that compose the "ISSUE OF UNSECURED NOTES OF TUBACEX, S.A. [insert the relevant issue date]" (the "**Issue**").*

In the case of discrepancy, the Spanish version shall prevail.

TITLE I

INCORPORATION, NAME, PURPOSE, ADDRESS AND DURATION OF THE SYNDICATE OF NOTEHOLDERS.

ARTICLE 1º. – INCORPORATION

In accordance with the provisions of Chapter IV of the Spanish Royal Legislative Decree 1/2010, of 2 July 2010, approving the Spanish Capital Companies Act ("Real Decreto Legislativo 1/2010, de 2 de julio, que aprueba el texto refundido de la Ley de Sociedades de Capital") (the "Spanish

*titulares de los Bonos (los "***Bonistas***") que integran la "EMISIÓN DE BONOS UNSECURED TUBACEX, S.A. [introducir fecha concreta de la emisión]".*

*Capital Companies Act"), once the Notes have been fully subscribed and paid-up, a Syndicate of the owners of the Notes (hereinafter, the "***Noteholders***") shall be constituted to include the "ISSUE OF UNSECURED NOTES OF TUBACEX, S.A. [insert the relevant issue date]".*

*Este Sindicato se regirá por el presente Reglamento, por la Ley de Sociedades de Capital, por las disposiciones de los estatutos sociales de Tubacex, S.A. (el "***Emisor***") y demás disposiciones legales vigentes que le sean aplicables.*

*This Syndicate shall be governed by these Regulations, by the Spanish Capital Companies Act, by the applicable provisions of the articles of association of Tubacex, S.A. (the "***Issuer***"), and other applicable legislation that may result applicable.*

ARTÍCULO 2°. – DENOMINACIÓN

ARTICLE 2º. – NAME

El Sindicato se denominará "SINDICATO DE BONISTAS DE LA EMISIÓN DE BONOS UNSECURED DE TUBACEX, S.A.".

The Syndicate shall be named "SYNDICATE OF NOTEHOLDERS OF THE ISSUE OF UNSECURED NOTES OF TUBACEX, S.A.".

ARTÍCULO 3°. – OBJETO

ARTICLE 3º. – PURPOSE

El Sindicato tendrá por objeto la representación y defensa de los legítimos intereses de los Bonistas frente al Emisor mediante el ejercicio de los derechos que le reconocen las leyes por las que se rigen y el presente Reglamento, para ejercerlos y conservarlos de forma colectiva, y bajo

This Syndicate is formed for the purpose of representing and protecting the lawful interests of the Noteholders before the Issuer, by means of exercising the rights granted by the applicable laws and the present Regulations, to exercise and preserve them in a collective way and under the *la representación que se determina en las presentes normas.*

ARTÍCULO 4°. – DOMICILIO

El domicilio del Sindicato se fija en [].

La Asamblea General de Bonistas podrá, sin embargo, reunirse, cuando se considere oportuno, en otro lugar de la ciudad de Madrid, expresándose así en la convocatoria.

ARTÍCULO 5°. – DURACIÓN

El Sindicato estará en vigor hasta que los Bonistas se hayan reintegrado de cuantos derechos derivados de los Bonos por principal, intereses o cualquier otro concepto les correspondan, o se hubiese procedido a la amortización de la totalidad de los Bonos de acuerdo con sus términos y condiciones.

TÍTULO II

RÉGIMEN DEL SINDICATO

ARTÍCULO 6°. – ÓRGANOS DEL SINDICATO

El gobierno del Sindicato corresponderá:

representation determined by these Regulations.

ARTICLE 4. – ADDRESS

The address of the Noteholders Syndicate shall be located at [].

However, the Noteholders General Meeting is also authorised to convene, when considered appropriate, in any other place in Madrid that is specified in the meeting announcement.

ARTICLE 5º. – DURATION

This Syndicate shall be in force until the Noteholders have been reimbursed for any rights deriving from the Notes they may hold for the principal, interest or any other concept, or until the amortization of all the Notes takes place according to the applicable terms and conditions.

TITLE II

SYNDICATE'S REGIME

ARTICLE 6º. – SYNDICATE MANAGEMENT BODIES

The Management bodies of the Syndicate are:

*(a) A la Asamblea General de Bonistas (la "**Asamblea General**").*

*(b) Al Comisario de la Asamblea General de Bonistas (el "**Comisario**").*

ARTÍCULO 7°. – NATURALEZA JURÍDICA

La Asamblea General, debidamente convocada y constituida, es el órgano de expresión de la voluntad de los Bonistas, con sujeción al presente Reglamento, y sus acuerdos vinculan a todos los Bonistas en la forma establecida por las Leyes.

ARTÍCULO 8°. – LEGITIMACIÓN PARA CONVOCATORIA

La Asamblea General será convocada por el Administrador o Administradores del Emisor o por el Comisario, siempre que cualquiera de ellos lo estime conveniente.

Sin perjuicio de lo anterior, el Comisario deberá convocarla cuando lo soliciten por escrito de forma fehaciente, y expresando el objeto de la convocatoria y los puntos del orden del día, los Bonistas que representen, por lo menos, (i) la vigésima parte del importe total de la Emisión que no esté amortizada o (ii) el mínimo que legalmente se establezca. En este

*(a) The General Meeting of Noteholders (the "**General Meeting**").*

*(b) The Commissioner of the General Meeting of Noteholders (the "**Commissioner**").*

ARTICLE 7º. – LEGAL NATURE

The General Meeting, duly called and constituted, is the body that expresses the will of the Noteholders, subject to the provisions of these Regulations, and its resolutions are binding for all Noteholders as established by Law.

ARTICLE 8º. – CONVENING MEETINGS

The General Meeting shall be convened by the Sole Director or Directors of the Issuer or by the Commissioner, whenever they may deem it convenient.

Notwithstanding the above, the Commissioner shall convene a General Meeting when Noteholders holding at least (i) one-twentieth of the entire non-amortised amount of the Issue, or (ii) the minimum established by law. In such case, the General Meeting shall be held within forty five (45) days following the receipt by the

caso, la Asamblea General deberá convocarse para ser celebrada dentro de los cuarenta y cinco (45) días siguientes a aquél en que el Comisario hubiere recibido la solicitud válida al efecto.

ARTÍCULO 9°. – FORMA DE CONVOCATORIA

La convocatoria de la Asamblea General se hará, por lo menos (i) quince (15) días antes de la fecha fijada para su celebración, o (ii) con el plazo mínimo que legalmente se establezca mediante (a) anuncio en la página web del Emisor y hecho relevante en MARF, o (b) anuncio que se publicará en el "Boletín Oficial del Registro Mercantil" y, si se estima conveniente, en uno o más periódicos de mayor difusión nacional o internacional o (c) notificación a los Bonistas de conformidad con los términos y condiciones de los Bonos.

El plazo se computará a partir de la fecha de la publicación del anuncio o de la fecha en que hubiere sido remitido el anuncio al último obligacionista, según cual fuere la forma de la convocatoria. No se computarán en el plazo ni el día de la publicación del anuncio o de remisión de la convocatoria ni el de la

Commissioner of a valid written notice for this purpose.

ARTICLE 9º. – PROCEDURE FOR CONVENING MEETINGS

The General Meeting shall be announced at least (i) fifteen (15) days before the date set for the meeting, or (ii) within the term established by law by (a) notice published in the webpage of the Issuer and relevant fact in MARF, or (b) notice published in the Official Gazette of the Mercantile Registry and, if appropriate, in one or more newspapers of significant national or international circulation, or (c) notice to the Noteholders in accordance with the terms and conditions of the Notes.

The term shall count from the date on which the notice is published or from the date on which the notice is communicated to the last Noteholder, as applicable. The term shall not include the day on which the notice is published or communicated, nor the day on which the General Meeting takes place.

celebración de la asamblea de obligacionistas.

En todo caso, se expresará en el anuncio el nombre de la sociedad y la denominación del Sindicato, el lugar y la fecha de reunión, tanto en primera como en segunda convocatoria debiendo mediar entre ambas, al menos, 24 horas, los asuntos que hayan de tratarse y la forma de acreditar la titularidad de los Bonos para tener derecho de asistencia a la Asamblea General.

In any case, the notice shall contain the name of the company and the Syndicate, the place and date of the meeting, at both first and second calls, with at least a 24-hour period between one call and the other, the matters to be discussed and the way in which the ownership of the Notes shall be credited in order to have the right to attend the General Meeting.

No obstante, la Asamblea General se entenderá convocada y válidamente constituida para tratar de cualquier asunto de la competencia del Sindicato, siempre que estén presente debidamente representados los Bonistas titulares de todos los Bonos en circulación y los asistentes acepten por unanimidad la celebración de la Asamblea y el orden del día.

However, the General Meeting shall be deemed validly constituted to transact any business within the remit of the Syndicate if Noteholders representing all of the outstanding Notes are present or duly represented, and provided that they unanimously approve the holding of such meeting and the agenda.

ARTÍCULO 10°. – DERECHO DE ASISTENCIA

ARTICLE 10º. – RIGHT TO ATTEND MEETINGS

Tendrán derecho de asistencia a la Asamblea General los Bonistas que lo sean, con cinco (5) días de antelación, por lo menos, a aquél en que haya de celebrarse la reunión.

Noteholders who have been so at least five (5) days prior to the date on which the meeting is scheduled, shall have the right to attend the meeting.

El Administrador o Administradores del Emisor, el Comisario y el Agente de Pagos (Paying Agent) de la Emisión

The Sole Director or the Directors of the Issuer, the Commissioner, and the Paying Agent under the Issue shall *tendrán derecho de asistencia a la Asamblea General aunque no hubieren sido convocados.*

have the right to attend the meeting even if they have not been requested to attend.

ARTÍCULO 11°. – DERECHO DE REPRESENTACIÓN

ARTICLE 11º. – RIGHT TO BE REPRESENTED

Todo Bonista que tenga derecho de asistencia a la Asamblea General podrá hacerse representar por medio otro obligacionista. Además, todo Bonista con derecho a asistencia podrá, en su caso de no poder delegar su representación en otro bonista, hacerse representar por el Comisario, aunque en ningún caso podrá hacerse representar por los administradores de la Sociedad, aunque sean obligacionistas. La representación deberá conferirse por escrito y con carácter especial para cada Asamblea General.

All Noteholders having the right to attend the meetings also have the right to be represented by another Noteholder. Furthermore, every Noteholder may, in case it cannot delegate its representation in another noteholder, be represented by the Commissioner, but under no circumstances shall be represented by the directors of the company, even if they are Noteholders. Appointment of a proxy must be issued in writing for each individual meeting.

ARTÍCULO 12°. –ADOPCIÓN DE ACUERDOS

ARTICLE 12º. – APPROVAL OF RESOLUTIONS

La Asamblea General adoptará los acuerdos por mayoría absoluta de los votos emitidos.

The General Meeting shall approve the resolutions by an absolute majority of the votes issued.

Por excepción, las modificaciones del plazo o de las condiciones del reembolso del valor nominal de los Bonos requerirán el voto favorable de las dos terceras partes de las Bonos en circulación. Si no se lograse esa mayoría, podrá ser nuevamente convocada la Asamblea General, de

As an exception, the amendment of the term or the reimbursement of the nominal value of the Notes shall be approved by two-thirds of the outstanding Notes. If such majority is not obtained, an additional General Meeting can be conveyed in *acuerdo con lo establecido en la Ley de Sociedades de Capital.*

ARTÍCULO 13°. – DERECHO DE VOTO

En las reuniones de la Asamblea General se conferirá derecho a un voto por cada importe nominal de Bonos igual a 100.000 EUR/USD, o el valor nominal no amortizado presente o representado. En todo caso, si así se previera en la correspondiente convocatoria de la Asamblea de Bonistas, el voto podrá ejercitarse a través de medios de comunicación a distancia, incluyendo la correspondencia postal o por medios telemáticos siempre que (a) se garantice debidamente la identidad del Bonista que ejerce el derecho de voto y (b) éste quede registrado en algún tipo de soporte.

ARTÍCULO 14º. - PRESIDENCIA DE LA ASAMBLEA GENERAL

La Asamblea General estará presidida por el Comisario, o la persona que éste designe legalmente quien dirigirá los debates, dará por terminadas las discusiones cuando lo estime conveniente y dispondrá que los asuntos sean sometidos a votación. No obstante, si el Comisario, por causas ajenas a su voluntad, no pudiera asistir a la Asamblea General, ésta podrá designar a la persona encargada de la

accordance with the terms of the Spanish Capital Companies Act.

ARTICLE 13º. – VOTING RIGHTS

At General Meetings, one vote shall be conferred to each nominal amount of Notes equivalent to EUR/USD 100,000, or to the outstanding nominal value present or represented. In any case, if indicated in the announcement of the General Meeting of Noteholders, the vote may be conducted by means of remote communication, including ordinary post or telematic means, as long as (a) the identity of the Noteholder exercising this voting right is duly verified, and (b) it is recorded by some means of support.

ARTICLE 14º. - CHAIRMAN OF THE GENERAL MEETING

The Commissioner, or the person legally appointed by it, shall serve as chairman of the General Meeting and shall chair the discussions. He/she shall have the right to bring the discussions to an end when considered appropriate and shall arrange for matters to be put to the vote. Notwithstanding, if the Commissioner, for reasons not attributable to it, is not able to attend the General Meeting, the *presidencia. Asimismo, los asistentes podrán designar, en su caso, a una persona que actuará como secretario de la Asamblea.*

General Meeting may designate the person that should act as chairman Furthermore, given the case, the attendants shall appoint a person to act as secretary of the General Meeting.

ARTÍCULO 15°. – LISTA DE ASISTENCIA

ARTICLE 15º. – ATTENDANCE LIST

El Comisario formará, antes de entrar a discutir el orden del día, la lista de los asistentes, expresando el carácter y representación de cada uno y el saldo vivo de los Bonos propios o ajenos con que concurren.

Before addressing the agenda items, the Commissioner shall prepare the attendance list, stating the nature and representation of each of the Noteholders present and the outstanding amount under the Notes both directly owned and/or represented at the meeting.

ARTÍCULO 16°. – FACULTADES DE LA ASAMBLEA GENERAL

ARTICLE 16º. – POWER OF THE GENERAL MEETING

La Asamblea General podrá acordar lo necesario para la mejor defensa de los legítimos intereses de los mismos frente al Emisor; modificar, de acuerdo con el Emisor, los términos y condiciones de los Bonos, pudiendo ser dichas modificaciones esenciales o no esenciales; destituir o nombrar Comisario; ejercer, cuando proceda, las acciones judiciales correspondientes y aprobar los gastos ocasionados por la defensa de los intereses de los Bonistas.

The General Meeting may pass resolutions necessary to i) defend the lawful interests of Noteholders before the Issuer; ii) modify, in accordance with the Issuer, the terms and conditions of the Notes, being those modifications essential or non-essential; iii) dismiss or appoint the Commissioner; iv) exercise, when appropriate, the corresponding legal claims and to approve the expenses incurred in the defence of the Noteholders' interests.

ARTÍCULO 17°. – IMPUGNACIÓN DE LOS ACUERDOS

Los acuerdos de la Asamblea General podrán ser impugnados por los Bonistas conforme a lo dispuesto en la Ley de Sociedades de Capital para la impugnación de acuerdos sociales.

ARTÍCULO 18°. – ACTAS

El acta de la sesión podrá ser aprobada por la propia Asamblea General, acto seguido de haberse celebrado ésta, o, en su defecto, y dentro del plazo de quince (15) días, por el Comisario y al menos un Bonista designado al efecto por la Asamblea General.

ARTÍCULO 19°.– CERTIFICACIONES

Las certificaciones de las actas de los acuerdos de la Asamblea General serán expedidas por el Comisario.

ARTÍCULO 20°. – EJERCICIO INDIVIDUAL DE ACCIONES

Los Bonistas sólo podrán ejercitar individualmente las acciones judiciales o extrajudiciales que corresponda cuando no contradigan los acuerdos adoptados previamente por el Sindicato, dentro de su competencia, y

ARTICLE 17º. – CHALLENGE OF RESOLUTIONS

The resolutions of the General Meeting may be challenged by the Noteholders in accordance with provisions of the Spanish Capital Companies Act regarding the challenge of corporate resolutions.

ARTICLE 18º. – MINUTES

The minutes of the meeting shall be approved by the General Meeting, after the meeting has been held or, alternatively, within a period of fifteen (15) days by the Commissioner and at least one Noteholder appointed for such purpose by the General Meeting.

ARTICLE 19º. – CERTIFICATES

The certificates of the minutes of the resolutions of the General Meeting shall be issued by the Commissioner.

ARTICLE 20º. – INDIVIDUAL EXERCISE OF CLAIMS

The Noteholders will only be entitled to individually exercise judicial or extra judicial claims if such claims do not contradict the resolutions previously adopted by the Syndicate, within its *sean compatibles con las facultades que al mismo se hubiesen conferido.*

TITULO III

DEL COMISARIO

ARTÍCULO 21°. – NATURALEZA JURÍDICA DEL COMISARIO

Incumbe al Comisario ostentar la representación legal del Sindicato y actuar de órgano de relación entre éste y el Emisor, de acuerdo con lo establecido en la ley.

ARTÍCULO 22°. – NOMBRAMIENTO Y DURACIÓN DEL CARGO

El Emisor designa a Bondholders, S.L. como Comisario, sin perjuicio de que la Asamblea General pueda destituir al Comisario designado y nombrar a otra persona si lo considera oportuno. La retribución del Comisario será fijada por el Emisor.

ARTÍCULO 23°. – FACULTADES

Serán facultades del Comisario:

1º Tutelar los intereses comunes de los Bonistas.

powers, and if compatible with the faculties conferred upon the Syndicate.

TITLE III

THE COMMISSIONER

ARTICLE 21º. – NATURE OF THE COMMISSIONER

The Commissioner shall bear the legal representation of the Syndicate and shall serve as provided on the Law as the liaison between the Syndicate and the Issuer.

ARTICLE 22º. – APPOINTMENT AND DURATION OF THE OFFICE

Notwithstanding the appointment of Bondholders, S.L. as Commissioner by the Issuer, the General Meeting shall remove the appointed Commissioner and appoint other person if it deems necessary. The remuneration of the Commissioner shall be established by the Issuer.

ARTICLE 23º. – POWERS

The Commissioner shall have the following powers:

1º To protect the common interest of the Noteholders.

2° Convocar y presidir, en su caso, las Asambleas Generales.

3° Informar a la Sociedad Emisora de los acuerdos del Sindicato.

4° Vigilar el pago de los intereses y del principal.

5° Llevar a cabo todas las actuaciones que estén previstas realice o pueda llevar a cabo el Comisario de acuerdo con los términos y condiciones de los Bonos.

6° Ejecutar los acuerdos de la Asamblea General.

7° Ejercitar las acciones que correspondan contra el Emisor, los administradores o liquidadores.

8° Aceptar, en nombre y representación de los Bonistas, cualesquiera garantías, incluyendo garantías reales, otorgadas a favor de los mismos y firmar cualesquiera otros documentos públicos o privados relacionados con dichas garantías quesea necesarios para su buen fin.

9º En general, las que le confiere la Ley y el presente Reglamento.

2º. To convene and act as chairman of the General Meeting, if applicable.

3º. To inform the Issuer of the resolutions passed by the Syndicate.

4º. To control the payment of the principal and the interest.

5º. To carry out all those actions provided for under the terms and conditions of the Notes or which may be carried out by the Commissioner.

6º. To implement the resolutions of the General Meeting.

7º. To exercise claims against the Issuer, the directors or liquidators.

8º. To accept, on behalf of the Noteholders, any guarantees, including any security, granted in their favour and sign any other documents, public or private, related to such guarantees that may be necessary.

9.º In general, the powers granted to the position by Law and the present Regulations.

19. Notices

(a) *Notice to Noteholders*: So long as the Notes are admitted *(incorporadas)* on the MARF, notices to the Noteholders will be published in MARF webside (www.bmerf.es). Any such notice will be deemed to have been given on the date of the first publication. In addition, so long as the Notes are represented by book-entries in Iberclear, all notices to Noteholders shall be made through Iberclear for transmission to their respective accountholders.

(b) *Notice of a General Meeting of the Syndicate of Noteholders*: Notice of a general meeting of the Syndicate of Noteholders must be given in accordance with the Regulations.

(c) *Notice to Commissioner*: Copies of any notice given to any Noteholders will be also given to the Commissioner of the Syndicate of Noteholders.

20. Governing Law and Jurisdiction

(a) *Governing law*: The Notes and any non-contractual obligations arising from or in connection with the Notes are governed by Spanish law.

(b) *Spanish courts*: The courts and tribunals of the city of Bilbao have exclusive jurisdiction to settle any disputes (a "**Dispute**") arising from or in connection with the Notes (including a dispute regarding any non-contractual obligation arising from or in connection with the Notes).

(c) *Appropriate forum*: The Issuer agrees that the courts of the city of Bilbao are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

VIII. ADMISSION OF THE SECURITIES

1. Request for admission of the securities to the Alternative Fixed Income Market. Deadline for admission to trading

Admission (*incorporación*) will be requested for the securities to be issued under the Programme described in this Information Memorandum on the Multilateral

Trading Facility known as the Alternative Fixed Income Market (*Mercado Alternativo de Renta Fija* or "**MARF**"). Said listing will take place within thirty (30) days of the Closing Date and always during the validity period of the Programme.

The MARF adopts the legal structure of a multilateral trading facility (MTF), under the terms provided for in Articles 26 et seq. of RDL 21/2017 constituting an alternative, unofficial, market for the trading of fixed-income securities.

Tubacex has requested admission (*incorporación*) of this Programme to the MARF for the following reasons: i) to diversify sources of external financing through access to capital markets, ii) to raise funds to strengthen the financial ability of the Issuer to obtain financing at longer maturities, and iii) to benefit from the flexibility of multilateral trading facilities with lower costs.

Neither MARF, the National Securities Market Commission (CNMV), nor the Placement Entities have approved, verified, or tested the contents of the Information Memorandum, the financial statements of the Issuer, or the risk of the issuance. The intervention of the MARF does not imply a statement, acknowledgement or confirmation about the completeness, understanding and consistency of the information included in the documentation contributed by the Issuer.

It is recommended that the investor fully and carefully read the Information Memorandum presented prior to making any investment decision.

The Issuer expressly states that it knows and is aware of the requirements and conditions necessary for the admission and exclusion of securities on the MARF under current legislation, and the requirements of its governing bodies, and it expressly agrees to comply therewith.

The Issuer expressly states that it has met the requirements for the registration and settlement of transactions in Iberclear. Operation settlements will be made through Iberclear.

2. Cost of all legal, financial, and audit services and other costs to the Issuer regarding the registration of the Programme

Registration of the Programme on the MARF costs amount to an approximate total of SEVENTY THOUSAND EUROS (EUR 70,000).

IX. THIRD PARTY INFORMATION, STATEMENT BY EXPERTS AND DECLARATIONS OF INTEREST

No statement or report attributed to a person as an expert is included in the Information Memorandum. No statement or report attributed to a third party is included in the Information Memorandum.

X. REFERENCES

Tubacex declares that the following documents (or copies thereof) can be inspected, if necessary, during the valid period of the Information Memorandum:

(a) The Bylaws of the Issuer are available at the Mercantile Registry of Álava, Basque Country (Spain).

(b) All reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Issuer's request, which are included or referred to in the Information Memorandum.

(c) The historical financial information of the Issuer for each of the two financial years preceding the publication of the Information Memorandum are available at the Mercantile Registry of Álava, Basque Country (Spain).

As the person responsible for the Information Memorandum

Signed: Mr. Jesús Esmorís Esmorís

as representative of Tubacex, S.A.

ANNEX 1

2018 CONSOLIDATED AUDITED ANNUAL ACCOUNTS

Tubacex, S.A. and Subsidiaries composing the TUBACEX Group

Auditor's Report Consolidated Financial Statements for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards Consolidated Directors' Report

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

Deloitte, S.L.
Ercilla, 24
48011 Bilbao
España

Tel: +34 944 44 70 00
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Tubacex, S.A.,

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tubacex, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Key Audit Matters

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

Situation arising from the suspension of the contract with an Iranian customer

Description

In 2017 the Group entered into a contract with an Iranian customer for the supply of 600 km of pipes over three years. On 8 May 2018, the US President announced his decision to reinstate the sanctions on Iran that had previously been lifted due to the participation of the US in the Joint Comprehensive Plan of Action. Within this context, in the course of 2018 the Group fulfilled the obligations arising from this contract and supplied, invoiced and received payment for a total of 209 km of the aforementioned pipes; it discontinued the supply of pipes prior to the expiry of the transitional period, which ended on 4 November 2018. On that date, the two parties temporarily suspended the contract for a period of three months until 4 February 2019, in search of a possible solution, whereafter this suspension was automatically extended, and neither of the parties has requested that steps for the definitive termination of the contract, or any other measure, be taken.

In this context, the estimation of the consequences that might arise from the suspension of the contract requires the application of significant judgements by management and, accordingly, the situation described was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, obtaining and analysing the contract entered into, and, in particular, obtaining an appropriate understanding of its clauses, as well as a series of other documents relating to this contract, including the correspondence exchanged with the customer, in order to understand the obligations arising therefrom.

Also, we met with Group management and its legal advisers in order to gain an understanding of the reasonableness of the decisions made by management, taking into account the opinion of its legal advisers. Moreover, we obtained in writing the understanding of these legal advisers regarding this situation.

Lastly, we checked that the disclosures included in Note 2.4 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Recoverability of the assets associated with the Austrian and Italian CGUs

Description

As described in Note 3.1 to the accompanying consolidated financial statements, the Group is required to test goodwill and other assets with indefinite useful lives for impairment annually; in the case of other non-current assets, the impairment test is performed whenever management considers that there is an indication that they may be impaired.

At 31 December 2018, the Group recognised in the consolidated statement of financial position an asset with an indefinite useful life amounting to EUR 11 million associated with the IBF brand (Italy), and net assets amounting to EUR 109 million associated with the SBER (Austria) cash-generating unit (CGU). The impairment tests were significant for our audit, since both the amount relating to the brand and the amount of the net assets associated with the SBER CGU are material to the consolidated financial statements. Also, the industrial and commercial transformation that the Tubacex Group has been implementing at the SBER CGU in recent years must be borne in mind.

The assessment process performed by management in this connection requires the use of significant judgements and estimates, both when determining the valuation method used and when considering the key assumptions established for the method in question (such as future sales forecasts, discount rates, the royalty rate for the brand, etc.).

Accordingly, this matter was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, substantive procedures to assess the reasonableness of the estimates made by Group management. In this regard, we obtained and analysed the impairment tests prepared by Group management, and verified the clerical accuracy thereof and the appropriateness of the valuation method used. To this end, we analysed the consistency of the future cash flow projections with external data and historical information on the component.

In this connection, we analysed the reasonableness of the main assumptions used (basically those relating to the future cash flow projections, the terminal value and the discount rates in the case of the SBER CGU, and the future sales, the royalty rate, the terminal value and the discount rates for the IBF brand) and the consistency thereof with the actual data on the evolution of these factors, and performed a sensitivity analysis on the key assumptions identified.

We involved our internal valuation experts in order to evaluate, mainly, the methodology employed by the Group in the analysis conducted, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows.

Lastly, we checked that the disclosures included in Notes 7 and 8 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Recoverability of deferred tax assets

Description

The consolidated statement of financial position as at 31 December 2018 includes EUR 66 million of deferred tax assets, of which EUR 42 million relate to tax assets (mainly tax loss and tax credit carryforwards) corresponding to companies included in the Álava tax group headed by the Parent (of which EUR 10 million are tax credits that can be recovered independently by the Parent since they were generated prior to its joining the Álava consolidated tax group), EUR 17 million relate to tax assets that are recoverable in Austria and EUR 7 million relate to tax assets that are recoverable in Italy.

At the end of the year Group management prepares financial models to assess the recoverability of the tax losses recognised, taking into consideration new legislative developments and the most recently approved business plans.

We identified this matter as key in our audit, since the preparation of these models requires a significant level of judgement, largely in connection with the projections of business performance, which affect the estimate made of the recoverability of the tax assets.

Procedures applied in the audit

Our audit procedures included, among others, in addition to reviewing the tax planning measures, reviewing the aforementioned financial models - including an analysis of the consistency of the actual results obtained by the various divisions with the results projected in the previous year's models-, obtaining evidence of the approval of the budgeted results included in the current year's models and the tax legislation applicable where the deferred tax assets are recognised, and evaluating the reasonableness of the projections for future years and the consistency of these projections with those used in other areas of estimation, such as those used in the assessment of impairment of financial investments relating to Group companies and associates or in the assessment of the use of the going concern basis of accounting. Also, we involved our internal experts from the tax area in the analysis of the reasonableness of the tax assumptions considered on the basis of the applicable legislation, for the various units for tax purposes or consolidated tax subgroups.

Lastly, we evaluated whether Note 22 to the accompanying consolidated financial statements contains the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2018, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels of responsibility in this regard:

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report, or, as the case may be, that the consolidated directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and Audit Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters

related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in the Appendix to this auditor's report. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2019.

Engagement Period

The Annual General Meeting held on 25 May 2016 appointed us as auditors of the Group for a period of three years from the year ended 31 December 2015.

Previously, we were designated pursuant to a resolution/resolutions of the General Meeting for the period of three years and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2012.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Pablo Mugica
Registered in ROAC under no. 18694

27 February 2019

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

We also provide the Parent's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

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

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32).
In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 AND 2017

(Thousands of euros)

ASSETS	Notes	31/12/2018	31/12/17 (*)	EQUITY AND LIABILITIES	Notes	31/12/2018	31/12/17 (*)
NON-CURRENT ASSETS				**EQUITY**	**Note 16**		
Intangible assets	**Note 7**	**51.935**	**51.906**	**Shareholders' equity-**			
Goodwill		11.481	12.108	Registered share capital		59.840	59.840
Other intangible assets		40.454	39.798	Share premium		17.108	17.108
Property, plant and equipment	**Note 8**	**267.658**	**272.435**	Revaluation reserve		3.763	3.763
Investments accounted for using the equity method	**Note 10**	**240**	**346**	Other reserves of the Parent and of fully consolidated			
Derivative financial instruments	**Note 12**	**265**	**-**	companies and companies accounted for using the equity method		181.651	203.667
Non-current financial assets	**Note 11**	**7.053**	**6.638**	Treasury shares		(7.850)	(7.850)
Deferred tax assets	**Note 22**	**66.365**	**70.520**	Profit (Loss) for the year attributable to the Parent		17.385	(19.710)
Total non-current assets		**393.516**	**401.845**	Interim dividend		(3.000)	-
				Other equity instruments	**Note 16.6**	930	790
						269.827	**257.608**
				Valuation adjustments			
				Translation differences		4.831	3.653
				Hedges		(307)	(4.029)
					Note 16.7	**4.524**	**(376)**
				Equity attributable to the Parent		**274.351**	**257.232**
				Non-controlling interests		**26.064**	**24.583**
				Total equity		**300.415**	**281.815**
				NON-CURRENT LIABILITIES			
				Long-term provisions	**Note 17**	**2.656**	**3.108**
				Deferred income		**1.693**	**1.416**
				Non-current financial liabilities		**139.310**	**81.661**
				Bank borrowings	**Note 18**	138.602	79.717
				Derivative financial instruments	**Note 12**	708	1.944
				Employee benefit obligations	**Note 21**	**8.661**	**8.663**
				Deferred tax liabilities	**Note 22**	**14.377**	**16.689**
				Other non-current financial liabilities	**Note 19**	**7.351**	**8.131**
				Total non-current liabilities		**174.048**	**119.668**
CURRENT ASSETS				**CURRENT LIABILITIES**			
Inventories	**Note 13**	**308.457**	**248.576**	**Short-term provisions**	**Note 17**	**5.549**	**5.581**
Trade and other receivables	**Note 14**	**94.626**	**95.603**	**Current financial liabilities**		**307.573**	**333.829**
Trade receivables for sales and services		76.863	75.466	Debt instruments and other marketable securities	**Note 18**	144.698	95.636
Other receivables		16.771	18.863	Bank borrowings	**Note 18**	161.285	233.101
Current tax assets		992	1.274	Derivative financial instruments	**Note 12**	1.590	5.092
Derivative financial instruments	**Note 12**	**1.845**	**274**	**Trade and other payables**	**Note 20**	**204.649**	**165.283**
Current financial assets	**Note 11**	**17.794**	**47.673**	Payable to suppliers		163.095	131.015
Other current assets		**3.676**	**4.938**	Other payables		41.312	34.268
Cash and cash equivalents	**Note 15**	**172.320**	**107.267**	Current tax liabilities	**Note 22**	242	-
Total current assets		**598.718**	**504.331**	**Total current liabilities**		**517.771**	**504.693**
TOTAL ASSETS		**992.234**	**906.176**	**TOTAL EQUITY AND LIABILITIES**		**992.234**	**906.176**

(*) Presented for comparison purposes only. (Note 2.5)

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of financial position as at 31 December 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR 2018 AND 2017

(Thousands of euros)

	Notes	2018	2017 (*)
Continuing operations:			
Revenue	**Note 6**	677.324	490.361
+/- Changes in inventories of finished goods and work in progress	**Note 13**	(26.342)	20.383
In-house work on non-current assets	**Note 3.2**	3.706	4.211
Procurements	**Note 13**	(330.259)	(274.719)
Other operating income	**Notes 11 & 24**	9.066	6.505
Staff costs	**Note 25**	(133.472)	(121.444)
Other operating expenses	**Note 24**	(130.447)	(99.357)
Depreciation and amortisation charge and impairment losses on non-current assets	**Notes 7 & 8**	(35.126)	(54.197)
Profit (Loss) from operations		**34.450**	**(28.257)**
Finance income	**Note 11**	1.438	2.185
Finance costs	**Notes 11 & 18**	(16.117)	(11.233)
Exchange differences		236	(1.786)
Financial loss		**(14.443)**	**(10.834)**
Result of companies accounted for using the equity method	**Note 10**	(112)	8
Loss before tax		**19.895**	**(39.083)**
Income tax	**Note 22**	(2.461)	14.975
Loss for the year from continuing operations		**17.434**	**(24.108)**
Profit/Loss from discontinued operations		-	-
Consolidated loss for the year		**17.434**	**(24.108)**
Profit (Loss) attributable to:			
The Parent		17.385	(19.710)
Loss attributable to non-controlling interests		49	(4.398)
Earnings per share (in euros)			
- Basic	**Note 23**	0,1339	(0,1518)
- Diluted	**Note 23**	0,1339	(0,1518)

(*) Presented for comparison purposes only. (Note 2.5)

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of profit or loss for 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Thousands of euros)

	Notes	2018	2017 (*)
Consolidated loss for the year		**17.434**	**(24.108)**
Items that may be reclassified subsequently to profit or loss:			
Income and expense recognised directly in equity			
Measurement of cash flow hedging instruments	**Notes 12 & 16**	166	(2.441)
Tax effect	**Notes 12, 16 & 22**	(43)	683
Translation differences	**Note 16.7**	1.178	(8.000)
Transfers to profit or loss			
Measurement of cash flow hedging instruments	**Notes 12 & 16**	4.863	(634)
Tax effect	**Notes 12, 16 & 22**	(1.264)	178
Other comprehensive income		**4.900**	**(10.214)**
Total comprehensive income for the year		**22.334**	**(34.322)**
Profit (Loss) attributable to:			
The Parent		22.285	(29.924)
Loss attributable to non-controlling interests		49	(4.398)

(*) Presented for comparison purposes only. (Note 2.5)

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of comprehensive income for 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR 2018 AND 2017

(Thousands of euros)

	Registered share capital	Share premium	Revaluation reserve	Other reserves	Treasury shares	Net profit (loss) for the year	(Interim dividend)	Other equity instruments	Translation differences	Cash flow hedges	Non-controlling interests	Total equity
Balance at 31 December 2016 (*)	**59.840**	**17.108**	**3.763**	**203.160**	**(7.850)**	**507**	**-**	**279**	**11.653**	**(1.815)**	**26.915**	**313.560**
Total comprehensive income	-	-	-	-	-	**(19.710)**	-	-	**(8.000)**	**(2.214)**	**(4.398)**	**(34.322)**
Other changes in equity												
Distribution of dividends (Notes 4 and 16.8)	-	-	-	-	-		-	-	-	-	-	**-**
Transfers between equity items	-	-	-	507	-	(507)	-	-	-	-	-	**-**
Other movements	-	-	-	-	-	-	-	-	-	-	2.066	**2.066**
Long-term incentive plan (Notes 3.11, 3.12 and 16)	-	-	-	-	-	-	-	511	-	-	-	**511**
Balance at 31 December 2017 (*)	**59.840**	**17.108**	**3.763**	**203.667**	**(7.850)**	**(19.710)**	**-**	**790**	**3.653**	**(4.029)**	**24.583**	**281.815**
IFRS 9 impact (Note 2.2)	-	-	-	**(2.502)**	-	-	-	-	-	-	-	**(2.502)**
Total comprehensive income	-	-	-	-	-	17.385	-	-	**1.178**	**3.722**	**49**	**22.334**
Other changes in equity												
Distribution of dividends (Notes 4 and 16.8)	-	-	-	-	-	-	(3.000)	-	-	-	-	**(3.000)**
Transfers between equity items	-	-	-	(19.710)	-	19.710	-	-	-	-	-	**-**
Other movements	-	-	-	196	-	-	-	-	-	-	1.432	**1.628**
Long-term incentive plan (Notes 3-k, 3-l and 16)	-	-	-	-	-	-	-	140	-	-	-	**140**
Balance at 31 December 2018	**59.840**	**17.108**	**3.763**	**181.651**	**(7.850)**	**17.385**	**(3.000)**	**930**	**4.831**	**(307)**	**26.064**	**300.415**

(*) Presented for comparison purposes only. (Note 2.5)

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of changes in equity for 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR 2018 AND 2017

(Thousands of euros)

	Notes	2018	2017 (*)
Cash flows from operating activities			
Loss for the year before tax		19.895	(39.083)
Adjustments for:			
Depreciation and amortisation charge and impairment losses on non-current assets	**Notes 7 & 8**	35.126	54.197
Exchange (gains)/losses		(236)	1.786
Changes in write-downs and provisions	**Notes 13, 14, 17 & 21**	4.718	3.743
Finance income		(1.438)	(2.185)
Finance costs		16.117	11.233
Share of results of companies accounted for using the equity method	**Note 10**	112	(8)
Changes in equity instruments – share-based payment transactions	**Note 16**	140	511
In-house work on non-current assets	**Note 3.2**	(3.706)	(4.211)
Gains or losses on disposals of other items of property plant and equipment and intangible assets	**Notes 7, 8 & 24**	(982)	1.003
Recognition of government grants in profit or loss	**Note 24**	(165)	(81)
		69.581	**26.905**
Changes in working capital:			
Inventories	**Note 13**	(63.251)	(37.774)
Trade and other receivables	**Note 14**	(3.276)	(2.200)
Other current assets		30.990	(3.905)
Trade and other payables	**Note 20**	(36.069)	31.731
Other current liabilities	**Notes 17 & 21**	2.660	(1.705)
Other non-current assets and liabilities		(867)	(743)
		(69.813)	**(14.596)**
Other cash flows from operating activities:			
Interest paid		(15.327)	(10.104)
Income tax recovered/(paid)	**Note 22**	(182)	-
Net cash flows from operating activities (I)		**(15.741)**	**2.205**
Cash flows from investing activities:			
Proceeds from disposal of non-current assets	**Notes 7 & 8**	6.557	-
Proceeds from disposal of financial assets	**Note 11**	20.787	41.021
Interest received		1.438	2.185
Investments accounted for using the equity method	**Note 10**	-	(8)
Acquisition of property, plant and equipment	**Note 8**	(27.480)	(28.994)
Acquisition of intangible assets	**Note 7**	(2.226)	(6.826)
Acquisition of other financial assets	**Notes 11 & 12**	(6.977)	-
Investments in business units	**Note 2.6**	9	249
Net cash flows from investing activities (II)		**(7.892)**	**7.627**
Cash flows from financing activities:			
Proceeds from issue of bank borrowings	**Note 18**	60.160	148.653
Proceeds from issue of other borrowings	**Note 18**	144.746	95.636
Repayment of bank borrowings	**Note 18**	(17.773)	(140.998)
Repayment of other borrowings	**Note 18**	(95.636)	(48.610)
Repayment or settlement of other financial liabilities	**Notes 12 & 19**	(2.811)	(606)
Dividends paid	**Note 16.8**	-	-
Net cash flows from financing activities (III)		**88.686**	**54.075**
Effect of foreign exchange rate changes (IV)		**-**	**-**
Net increase/(decrease) in cash and cash equivalents (I+II+III+IV)		**65.053**	**63.907**
Cash and cash equivalents at 1 January	**Note 15**	107.267	43.360
Cash and cash equivalents at 31 December	**Note 15**	**172.320**	**107.267**

(*) Presented for comparison purposes only. (Note 2.5)

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of cash flows for 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

Tubacex, S.A. and Subsidiaries composing the TUBACEX Group

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018

1. Description and activities of the Parent

Tubacex, S.A. ("the Parent") was incorporated as a public limited liability company for an indefinite period of time on 6 June 1963 and its registered office is in Llodio (Álava).

Its company object is, inter alia, the manufacture and sale of special seamless (basically stainless) steel tubes and any other type of product related to the iron and steel industry or other similar activities in which it is decided to engage. However, on 1 January 1994 the Parent became a holding company and head of the Tubacex Group, without engaging in any production activities, since these are carried on by its subsidiaries.

Tubacex, S.A. engages mainly in the holding of ownership interests (see Appendix) and in the rendering to Group companies of certain centralised and leasing services that are invoiced to them.

Tubacex, S.A. is the Parent of a Group made up of the subsidiaries listed in the accompanying Appendix, which is an integral part of this Note. Tubacex, S.A. and its Subsidiaries ("the TUBACEX Group" or "the Group") engage mainly in the manufacture and sale of special seamless (basically stainless) steel tubes.

The shares of Tubacex, S.A. are listed on the Spanish Stock Market Interconnection System.

Formal preparation of financial statements

These consolidated financial statements were authorised for issue by the Board of Directors on 27 February 2019. The TUBACEX Group's consolidated financial statements for 2017 were approved by the shareholders at the Annual General Meeting of TUBACEX on 23 May 2018. The 2018 consolidated financial statements of the Group and the 2018 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Board of Directors of TUBACEX considers that the aforementioned financial statements will be approved without any changes.

2. Basis of presentation of the consolidated financial statements

2.1 Basis of presentation

The consolidated financial statements for 2018 of the TUBACEX Group were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the accompanying consolidated financial statements are summarised in Note 3.

- Taking into account all the mandatory accounting principles and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.

- So that they present fairly the TUBACEX Group's consolidated equity and consolidated financial position at 31 December 2018 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The Group's directors prepared the consolidated financial statements using the going concern basis of accounting.

2.2 Adoption of International Financial Reporting Standards (IFRSs)

The TUBACEX Group's consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with IFRSs, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, taking into account all the mandatory accounting principles and rules and measurement bases with a material effect, as well as the alternative treatments permitted by the relevant standards in this connection.

In 2018 the following mandatory interpretations and standards already adopted by the European Union came into force, which, where applicable, were used by the Group in preparing these consolidated financial statements:

(1) *New standards, amendments and interpretations mandatorily applicable in 2018*

Approved for use in the European Union		**Obligatory application in annual reporting periods beginning on or after:**
IFRS 15, Revenue from Contracts with Customers (issued in May 2014) and its clarifications (issued in April 2016)	New revenue recognition standard (supersedes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	Various amendments to the standard on share-based payment transactions in relation to vesting conditions on cash-settled share-based payment transactions, amendments to the terms and conditions of plans, net settlements, etc.	1 January 2018
Amendments to IFRS 4, Insurance Contracts (issued in September 2016)	Provide entities within the scope of IFRS 4 with the option of applying IFRS 9 ("overlay approach") or the temporary exemption therefrom.	1 January 2018
Amendments to IAS 40, Transfers of Investment Property (issued in December 2016)	Guide to investment property transactions when there is a change in use.	1 January 2018
IAS 28, Long-term Interests in Associates and Joint Ventures (issued in December 2016)	Clarification in relation with the option of its valuation in fair value (improvements in IFRS 2014-2016 cycle).	1 January 2018

IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued in December 2016)	Establishes the date of the transaction for the purpose of determining the exchange rate to use in transactions with advance consideration in a foreign currency.	1 January 2018

IFRS 15

The new requirements under IFRS 15 could give rise to changes in the revenue profile. Specifically, the standard establishes a revenue recognition approach based on five steps: Step 1, identify the contract(s) with a customer; Step 2, identify the performance obligations under the contract; Step 3, determine the transaction price; Step 4, allocate the transaction price to the performance obligations in the contract; and lastly Step 5, recognise revenue when (or as) the entity satisfies a performance obligation.

The Group has assessed the application of IFRS 15 and there is no significant impact deriving therefrom. It was not, therefore, necessary to apply it retrospectively, restating the comparative information.

Due to their characteristics, the sales transactions in the business in which the Group operates, with the exception of a significant contract signed in 2017 and suspended in 2018 (see Note 2.4), follow a normal sales pattern for contracts for the delivery of assets at a point in time rather than over several years. Following a case-by-case analysis, it was concluded that effective control over the significant risks and rewards of ownership of the goods in these contracts is retained until the goods are transferred and, accordingly, the amount of revenue can be measured reliably and is considered likely to be received, and the transaction costs incurred or to be incurred can be measured reliably. Sales warranties cannot be purchased separately. Consequently, the Group will continue to recognise warranties and insurance contracts in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No supplementary warranties are provided in addition to those required by law which, under IFRS 15, are considered to be service warranties and should, therefore, be recognised as a separate performance obligation to which the Group must allocate a portion of the asset’s selling price. With respect to the contract signed in 2017 which, based on its nature, is considered to be a construction contract, the directors analysed the differences between the application of IAS 11 and IFRS 15 and concluded that there was no accounting impact.

Except for the more extensive disclosure requirements on its revenue transactions, no other significant impacts on the Group’s financial situation or profit or loss arose as a result of applying this standard.

IFRS 9, Financial Instruments

IFRS 9 superseded IAS 39 for reporting periods beginning on or after 1 January 2018. There are very significant differences with respect to the previous standard for the recognition and measurement of financial instruments. However, the most significant difference for the Group relates to impairment losses on financial assets, since IFRS 9 requires the application of a model based on expected credit losses, as opposed to the model in IAS 39 which is based on incurred credit losses. Under this model, the Group updates the expected credit loss and the changes therein at each reporting date to reflect the changes in credit risk since initial recognition; it is therefore unnecessary for an impairment event to have occurred before credit losses are recognised. In addition, changes in the contractual cash flows of a financial liability leading to the derecognition of the financial liability must be recognised as a change in estimate of the contractual cash flows of the liability, maintaining the original effective interest rate and adjusting its carrying amount to enable the recognition of a balancing entry in profit or loss.

The Group measures its assets at amortised cost since the objective of the business model is to hold assets in order to collect the contractual cash flows. The Group has applied IFRS 9 retrospectively, without restating the comparative information. In this connection, in accordance with the new impairment model based on 12-month expected credit losses, the Group considers that the financial assets measured at amortised cost will be subject to impairment, taking into consideration the facts and circumstances that existed at that date, as indicated below. According to the assessment performed, the Group recognised a reduction of EUR 2,502 thousand in the amount of reserves at 1 January 2018:

	Amount at 01/01/18	**12-month estimated credit loss (%) (*)**	**12-month estimated credit loss at 01/01/19**
Trade receivables	93,100	0.02% - 3.77%	1,764
Amounts to be billed for work performed	2,503	3.77%	94
Current financial assets	32,069	0.02%-0.06%	13
Current financial assets	15,604	3.77%	588
Cash	107,269	0.02%-0.06%	43
TOTAL			**2,502**

(*) The estimate was made taking into consideration the credit rating of the counterparties, issued by agencies of recognised prestige, considering the credit rating of the customers and financial institutions the Group works with as ranging from B to AAA. In the estimation of the expected credit loss on the amounts to be billed for work performed, since an individual credit rating is not available for the customer, the Group used the rating of the country in which it carries on its activities as a valid reference and opted to estimate an expected credit loss of 3.77% of the total amount to be billed.

With respect to derivative financial instruments, the Group does not consider that the entry into force of the aforementioned IFRS will give rise to any significant impacts.

The Group has applied the aforementioned standards and interpretations since they became effective on 1 January 2018, which did not have a significant impact on its accounting policies.

(2) New standards, amendments and interpretations that will be mandatorily applicable in annual reporting periods subsequent to the calendar year that began on 1 January 2018.

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union:

Approved for use in the European Union		**Obligatory application in annual reporting periods beginning on or after:**
IFRS 16, Leases (issued in January 2016)	It introduces a single lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with an impact similar to that of current finance leases (supersedes IAS 17 and the associated interpretations).	1 January 2019
Amendments to IFRS 9, Prepayment Features with Negative Compensation (issued in October 2017)	The amendments permit the measurement at amortised cost of certain financial instruments with prepayment features that allow the payment of an amount that is lower than the unpaid amounts of principal and interest.	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (issued in October 2017)	The amendments clarify that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not used.	1 January 2019
IFRIC 23, Uncertainty Over Income Tax Treatments (issued in June 2017)	Clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over whether the relevant taxation authority will accept a tax treatment used by an entity.	1 January 2019

Not yet approved for use in the European Union		**Obligatory application in annual reporting periods beginning on or after:**
IFRS 17, Insurance Contracts (issued in May 2017)	Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Supersedes IFRS 4.	1 January 2021
Improvements to IFRSs, 2015-2017 cycle (issued in December 2017)	Minor amendments to a series of standards (IFRS 3, IAS 12 and IAS 23)	1 January 2019
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	Under the proposed amendments, when a change is made to a defined benefit plan (due to amendment, curtailment or settlement), the entity will use current assumptions to remeasure the cost of the services and the net interest for the period following the change to the plan.	1 January 2019
Amendments to IFRS 3, Business Combinations (issued in February 2018)	Clarifications to the definition of Business	1 January 2020
Amendments to IAS 1 and IAS 8, Materiality (issued in October 2018)	Amendments to IAS 1 and IAS 8 in order to align the definition of materiality.	1 January 2020

IFRS 16, Leases

IFRS 16 will come into force on 1 January 2019 and will supersede IAS 17 and the current associated interpretations. The main development of IFRS 16 is that it introduces a single lessee accounting model in which all leases will be recognised in the statement of financial position with an impact similar to that of the existing finance leases (depreciation of the right-of-use asset and a finance cost for the amortised cost of the liability will be recognised). IAS 17 does not require the recognition of any right-of-use asset or liability for future payments under these leases; however, certain information is disclosed, such as operating lease obligations, in Note 9 to the consolidated financial statements.

The evaluation of the impact of this new standard is finished at 31 December 2018, using these aspects:

- The Group has identified all leases that, at 31 December 2018, have a term exceeding 12 months and that are not, in turn, classified as having a “low value” underlying asset (taking the value provided in the IFRSs -USD 5,000- as a reference), focusing its analysis on leases that convey the right to control the use of an asset. Following the cost / benefit model permitted under IFRSs, or the simplified approach for practical purposes, the Group will account for low-value or short-term leases (with a term of 12 months or less from the commencement date) using the current accounting policy, recognising such leases as an expense on a straight-line basis over the lease term. At 31 December 2018, the lease payments amounted to EUR 1,040 thousand.

- The Group analysed whether the identified contracts meet the requirements for recognition as leases laid down in the standard, i.e.:

  a) There is an identified asset (whether individual or a “distinct portion” thereof), the right to control the use of which is conveyed by the lease in accordance with the clauses thereof.

  b) As a result of the use of this asset, the lessee has the right to obtain substantially all of the economic benefits deriving from such use throughout the lease term.

- The leases affected by this new standard refer mainly to the Group’s offices located in Derio and to various machines for warehouse use. The impact relating to the right to use these assets was considered individually, without separating the additional service items not related to the lease - given their scant materiality- and, therefore, without considering that it would have been possible to group them together in a portfolio if they have similar characteristics, as permitted by the standard. There are no variable payments that depend on performance. In addition, with respect to the initial recognition of these assets, no direct costs were incurred and no dismantling / restoration costs that must be taken into consideration are expected.

- The liability was initially recognised taking into account both fixed payments (less any incentives from the lessor) and variable payments that depend on an index (mainly, the CPI), and no optional payments or other disbursements to be made upon termination of the lease were identified for the purposes of this calculation. The sum of these lease payments is discounted taking into account the Group's incremental borrowing rate, as provided for in the standard, since the interest rate implicit in the leases cannot be readily determined. With respect to the discount rate, a uniform rate of 2% was applied, since the leased assets do not differ significantly in terms of their nature, they are located in Spain and the lease terms are similar.

- For the purposes of this new accounting standard, the Group will recognise the impact thereof using the cumulative catch-up approach, under which these balances are not calculated using the full retrospective approach and comparative information is not restated, so that the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of equity, where appropriate, in 2018. At 1 January 2019, the right-of-use asset was equal to the lease liability and amounted to approximately EUR 1,703 thousand, with maturities from 2020 to 2022.

In any event, the new requirements of IFRS 16 do not have a significant impact on the Group's consolidated financial statements on the basis of the leases in force at 31 December 2018 (see, for comparative purposes, Note 9 in relation to minimum lease payments contracted by the Group for the leases currently in force). The effects are, in any case, as envisaged, apart from the recognition of the right-of-use asset and the related liability in the consolidated statement of financial position, of the depreciation of the right-of-use asset and the finance cost related to the liability, and of the payments made.

2.3 Functional currency

These consolidated financial statements are presented in euros, since this is the currency of the main economic area in which the Group operates. Foreign operations are accounted for in accordance with the policies established in Note 2.6.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with a functional currency other than the euro at 31 December 2018 and 2017, including intra-Group balances eliminated from the accompanying consolidated statement of financial position, is as follows:

	Equivalent value in thousands of euros			
	31/12/18		31/12/17	
Currency	Assets	Liabilities	Assets	Liabilities
Brazilian real	1,267	890	931	1,446
Thai baht	12,338	7,328	6,763	2,224
US dollar	115,789	62,857	56,664	11,165
Indian rupee	52,471	13,867	49,006	11,113
Total	**181,865**	**84,942**	**113,364**	**25,948**

At 31 December 2018, the Parent had a balance payable of EUR 14 million in foreign currencies.

The detail of the main foreign currency balances of subsidiaries is as follows:

	Equivalent value in thousands of euros			
	31/12/18		31/12/17	
Nature of the balances	Assets	Liabilities	Assets	Liabilities
Intangible assets	11,019	-	10,896	-
Property, plant and equipment	49,904	-	41,145	-
Non-current financial assets and deferred tax assets	24,249	-	1,942	-
Inventories	35,167	-	25,993	-
Trade and other receivables	25,389	-	15,997	-
Other current financial assets	1,084	-	503	-
Cash and cash equivalents	35,053	-	16,888	-
Non-current liabilities	-	17,652	-	8,436
Current liabilities	-	67,290	-	17,512
Total	**181,865**	**84,942**	**113,364**	**25,948**

2.4 Responsibility for the information and use of significant estimates

The information in these consolidated financial statements is the responsibility of the Board of Directors of TUBACEX.

In the consolidated financial statements of the TUBACEX Group for 2018 estimates were occasionally made. The most significant estimates relate to:

- The assumptions used to measure goodwill and intangible assets with indefinite useful lives (see Notes 2.6 and 7).

- The assumptions used to evaluate the recoverability of deferred tax assets (see Note 22).

- The useful life of the intangible assets and property, plant and equipment (see Notes 7 and 8).

- The evaluation of possible impairment losses on certain assets (see Notes 7, 8, 10, 11 and 14).

- The analysis of net realisable values, the assessment of write-downs due to the slow movement of inventories and the evaluation of possible losses on the committed order backlog (existence of onerous contracts) (see Note 13).

- The amount of provisions for contingencies and charges and the probability of occurrence and amount of any liabilities of undetermined amount or contingent liabilities (see Note 17).

- Achievement of covenants in relation to certain financing received (see Note 18).

- The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 21).

- The fair value of certain equity instruments (see Notes 3.12 and 16.6), and fulfilment of the conditions for them to be derecognised (see Note 3.5).

Although these estimates were made on the basis of the best information available on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statements of profit or loss. Due to the uncertainty involved in any estimate based on future expectations in the current economic environment, differences might arise between projected and actual results. The importance of these estimates should be taken into account in any interpretation of the accompanying consolidated financial statements and, in particular, in relation to the recovery of goodwill, property, plant and equipment and recognised tax assets.

On 24 May 2017, the Group entered into an agreement with National Iranian Oil Company (NIOC) to supply a 600 km-long, stainless steel, corrosion resistant pipeline. The Group has fulfilled the obligations arising from this agreement.

On 8 May 2018, the US President announced his decision to reinstate sanctions on Iran. Those sanctions had previously been lifted due to US participation in the Joint Comprehensive Plan of Action.

In accordance with the decision by the US President, a number of US departments and government agencies implemented two wind-down periods of 90 and 180 days, respectively, at the end of which the sanctions relating to activities involving Iran would be reinstated.

Meanwhile, on 16 May 2018 the European Commission launched the formal process to activate the blocking statute by updating the list of US sanctions on Iran falling within its scope. The blocking statute exempts EU companies from the extraterritorial effects of US sanctions, allows them to recover damages arising from such sanctions from the person causing them and nullifies the EU-wide effect of any foreign court judgments based on them.

In light of this social-political setting, and with respect to the aforementioned supply agreement, the Group supplied, invoiced and received payment, amounting to EUR 197 million, for a pipeline measuring a total of 209 km of the 600 km, up until the end of 2018. The pipeline supply was halted prior to the end of the wind-down period. This wind-down period ended on 4 November 2018, when both parties temporarily suspended the agreement for a period of three months, until 4 February 2019, in search of a possible solution. At the date of these consolidated financial statements the parties were continuing negotiations to find a solution to the situation that had arisen, and neither of them had requested steps to terminate the agreement on a definitive basis or any other measures. Consequently, this period has been tacitly extended and the agreement is therefore under suspension.

At 31 December 2018, the Group had granted NIOC guarantees amounting to EUR 51 million to ensure compliance with the agreement. In view of the restrictions arising from the US sanctions, these guarantees are unenforceable.

At 31 December 2018, the directors of the TUBACEX Group considered that the Group did not have any material contingent liabilities other than those disclosed herein.

2.5 Comparative information

As required by IAS 1, the information relating to 2018 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2017 and, accordingly, it does not constitute the TUBACEX Group's statutory consolidated financial statements for 2018.

With a view to performing an appropriate comparison between the consolidated financial statements for 2018 and 2017, the changes in the scope of consolidation described in Note 2.6 should be taken into account.

2.6 Basis of consolidation

Scope of consolidation

The accompanying consolidated financial statements include the Parent and the companies over which it exercises control, where control is power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor’s returns.

The accompanying consolidated financial statements for the year ended 31 December 2018 were prepared from the separate accounting records at that date of Tubacex, S.A. (the Parent -see Note 1) and of the subsidiaries listed in the Appendix to these notes to the consolidated financial statements. All of the subsidiaries have the same reporting period except for the Indian companies Tubacex Prakash

India Pvt Ltd and Tubacex India Pvt Ltd, whose reporting period ends on 31 March. The reporting period of these companies was adjusted for consolidation purposes to end on 31 December.

Changes in the scope of consolidation

The most significant changes in the scope of consolidation in 2018 were as follows:

Tubacex Servicios de Gestión

On 14 September 2018, Tubacex, S.A incorporated Tubacex Servicios de Gestión, S.L., with registered office in Leioa (Vizcaya). The share capital contributed by the shareholders amounted to EUR 3,000 and was paid in full at the time of incorporation.

The company engages in accounting, tax and legal advisory and consulting management for the companies belonging to its business group.

Tubacex US Holding, Inc.

On 20 July 2018, Tubacex, S.A. incorporated Tubacex US Holding, Inc. with 100 shares worth USD 0.01 each.

The company's registered office is in Delaware (USA).

Tubacex Durant, Inc.

On 15 August 2018, Tubacex, S.A. incorporated Tubacex Durant, Inc. with 100 shares worth USD 0.01 each.

The company's registered office is in Delaware (USA).

In December 2018, Tubacex Durant, Inc. entered into an agreement with US Bancorp Community Development Corporation ("USBCDC"), a Minnesota corporation, relating to the development, construction and fitting out of a facility in Durant (Oklahoma). Within the framework of this agreement, USBCDC made a capital contribution of USD 10.9 million (equal to EUR 9.5 million) to USBCDC Investment Fund 272, LLC, a Missouri limited liability company ("the Fund").

This agreement forms part of a tax incentive scheme ("NMTC Program"), envisaged in the Community Renewal Tax Relief Act of 2000, which aims to boost investment in what are considered to be low-income US communities. This Act provides entitlement to federal tax credit ("NMTC") of up to 39% of investments in certain community development entities ("CDEs"). CDEs are privately managed entities that are certified to invest in the aforementioned low-income communities. By virtue of the contribution of funds amounting to USD 10.9 million made by USBCDC, this corporation will be entitled to receive tax credits amounting to USD 13.3 million (equal to EUR 11.6 million) for the seven-year period established in the Act ("recapture period").

Within the context of the same agreement, Salem Tube, Inc. granted a loan of USD 23.7 million (equal to EUR 20.7 million), maturing in September 2042, to the Fund at a borrowing rate of 1%.

The investment Fund used USD 34 million (the total amount collected, net of commissions amounting to USD 0.6 million) to make qualified equity investments ("QEIs") in certain CDEs which, in turn, used the aforementioned USD 34 million to grant loans to Tubacex Durant, Inc. under terms and conditions similar to those governing the loan granted to the Fund by Salem.

In this same transaction Salem granted a put option to USBCDC, whereby Salem may be required to repurchase the Fund from USBCDC at a minimum value of USD 1,000. Similarly, Salem has a call option vis-à-vis USBCDC in respect of the Fund for the aforementioned minimum value. The directors consider that USBCDC will exercise the put option in December 2025, at the end of the recapture period for the NMTCs.

Pursuant to the applicable tax legislation, in the event that Durant failed to comply with its investment obligations, USBCDC would have to return the tax credits that it has received, in which case Durant would be required to pay compensation to the former for any damage relating to the breach, including any applicable fines, as well as interest on the tax credits received. The agreement also envisages compensation to USBCDC with respect to any environmental obligations, as well as the payment of certain commissions earned throughout the seven-year period in which the tax credits are received, amounting to a total of USD 1.7 million. These obligations that Durant may potentially face are also guaranteed, on a joint and several basis, by Salem and Tubacex US Holding, Inc. (the parent of Tubacex Durant). In the directors' view, no breaches are expected in relation to the investments to be made.

In accordance with IFRS 10, and insofar as Durant is the main beneficiary of the returns from the Fund, a structure designed precisely so that this company can benefit from it, this Fund was consolidated in the Group's consolidated financial statements. Accordingly, "Other Non-Current Liabilities" in the consolidated statement of financial position as at 31 December includes a balance of EUR 9.5 million, relating to USBCDC's contribution to the Fund, net of commissions.

The most significant changes in the scope of consolidation in 2017 were as follows:

Tubacex Awaji Thailand investment

On 27 September 2016, the Tubacex Group entered into an agreement with the Japanese company Awaji Materia to create a company to manufacture special stainless steel components in its plant in Thailand. This transaction gave rise to a capital increase of USD 3.3 million subscribed by the Tubacex Group through its Italian subsidiary IBF SpA, representing an ownership interest of 60% in the new company held by IBF SpA (in which Tubacex, S.A. holds a 65% ownership interest). As consideration for the remaining 40%, Awaji Materia contributed the remaining assets to the aforementioned company.

It is envisaged that the new company, Tubacex Awaji Thailand, which currently has 40 employees, will bill EUR 20 million to EUR 25 million in three years through the manufacturing of fittings. These are standard products which complement the current range of fittings which the Group offers through its subsidiaries Tubacex Taylor Accesorios S.A. and IBF SpA, thereby providing industrial synergies.

The transaction is part of the growth strategy envisaged in TUBACEX's 2013-2017 Strategic Plan, and will enable the Group, inter alia, to supplement its product range and increase its presence in the Asian market.

The detail of the assets acquired and the liabilities recognised in the consolidated financial statements at the date on which control was obtained, once the conclusions of the independent valuers' reports on the measurement thereof had been considered, is as follows:

	23/01/17	
Nature of the balances	Assets	Liabilities
Non-current assets		
Property, plant and equipment (Note 8)	1,579	-
Current assets		
Inventories (Note 13)	239	-
Trade and other receivables	138	-
Cash and cash equivalents	3,349	-
Current liabilities		
Other liabilities	-	139
Total	**5,305**	**139**

This company has been fully consolidated in the consolidated financial statements since 23 January 2017, the date on which the directors consider control was obtained. The effect that the consolidation of this company from 1 January 2017 would have had on the consolidated financial statements is not material.

Consolidation methods

a) Subsidiaries

"Subsidiaries" are defined as companies over which TUBACEX exercises control.

Control exists where the Group has:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

The Group will reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Where the Group holds less than a majority of voting rights, it has power over the investee when the voting rights are sufficient to afford it the practical ability to direct the relevant activities unilaterally. When assessing whether the Group's voting rights are sufficient to give it power, it considers all facts and circumstances, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of an investee shall begin from the date the Group obtains control of the investee and cease when the Group loses control of the investee.

The Group shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The Group shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments shall be made to the subsidiaries' financial statements to ensure conformity with the Group's accounting policies.

Intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

b) Associates and joint arrangements

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture (unlike a joint operation described in 2-f.c)) is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are accounted for in these consolidated financial statements using the equity method. Under the equity method, an investment in an associate or joint venture is initially recognised at cost and the carrying amount is increased or reduced to recognise the investor's share of the profit or loss of the investee after the acquisition date.

If the Group's share of losses of an associate or a joint venture equals or exceeds its interest therein, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or joint venture is accounted for using the equity method from the date on which it becomes an associate or joint venture.

Profits and losses resulting from transactions between the Parent and an associate or joint venture are recognised in the Group's consolidated financial statements on the basis of the interest in the associate or joint venture not held by the Group.

c) Joint operations and unincorporated temporary joint ventures (UTEs)

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When a Group company carries on its activities within the framework of a joint operation, the Group, as joint operator, shall recognise in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

When a Group company enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party. At 31 December 2018 and 2017, the Tubacex Group did not have any joint operations or ventures of this nature.

Business combinations

The Group is considered to carry out a business combination when the assets acquired and liabilities assumed constitute a business. The Group accounts for each business combination by applying the acquisition method, which entails identifying the acquirer, determining the acquisition date -which is the date on which control is obtained- and cost of acquisition, recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and, lastly, recognising and measuring any goodwill or gains on bargain purchases.

The costs incurred upon acquisition are recognised as an expense in the year in which they are incurred and, accordingly, they are not considered to be an increase in the cost of the business combination.

The identifiable assets acquired and the liabilities assumed are measured at fair value at the acquisition date and non-controlling interests are measured at the proportional part of the interest in the identifiable net assets.

In the case of step acquisitions, the acquirer revalues the existing investment at fair value on the date control is obtained, and recognises the related gain or loss in the consolidated statement of profit or loss.

In addition, transactions between the Parent and non-controlling interests (transactions subsequent to obtaining control in which the Parent acquires further ownership interests from non-controlling interests or disposes of investments without losing control) are accounted for as transactions with equity instruments.

The Group recognises goodwill at the acquisition date as the excess of:

- the aggregate of (i) the consideration transferred measured at acquisition-date fair value; (ii) the amount of any non-controlling interest; and (iii) in a business combination achieved in stages, the acquisition-date fair value of the Group's previously held equity interest, over

- the net amount of identifiable assets acquired and liabilities assumed.

Where this difference is negative, the Group repeats the analysis of all the elements in order to determine whether the acquisition was made in highly advantageous conditions, in which case the difference is recognised in profit or loss under "Gains On Bargain Purchases Arising from Consolidation" in the accompanying consolidated statement of profit or loss.

Translation of financial statements denominated in foreign currency

The financial statements in foreign currencies were translated to euros using the year-end exchange rate method, which consists of translating all the assets, rights and obligations to euros at the closing exchange rates and the statement of profit or loss items at the average exchange rates for the year.

The difference between the amount of the foreign companies' equity translated at historical exchange rates (except for the profit or loss for the year, which is translated as stated above) and the net asset value arising from the translation of the assets, rights and obligations at the closing exchange rates from 1 January 2004 is presented in equity under "Translation Differences" in the consolidated statement of financial position, net of the portion of the difference that relates to non-controlling interests, which is recognised under "Equity - Non-Controlling Interests".

2.7 Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2017.

2.8 Going concern principle of accounting

At 31 December 2018, the Group had a positive working capital of EUR 81 million and a profit of EUR 18, having incremented its revenues during the year 2018 more than a 38%. Additionally, it should be noted that the profit includes value adjustments made in the year that had not an impact on cash (see Notes 7 and 11).

There are also other additional factors such as the Group's positive outlook with a significant backlog at the various CGUs, an equity position of EUR 296,291 thousand and a market capitalisation of EUR 332 million at 31 December 2018.

In view of the foregoing, the directors formally prepared these consolidated financial statements using the going concern basis of accounting. In addition, at 31 December 2018 the Group had a sound financial position with EUR 172 million in "Cash and Cash Equivalents", EUR 18 million in "Current Financial Assets" and undrawn credit facilities amounting to EUR 68,979 thousand (see Note 18).

3. Accounting policies

The principal accounting policies used by the TUBACEX Group in preparing its consolidated financial statements as at 31 December 2018 and 2017 were as follows:

3.1 Intangible assets

Goodwill-

Goodwill arising on consolidation is calculated as explained in Note 2-f.

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3.3 and, where appropriate, are written down.

An impairment loss recognised for goodwill must not be reversed in a subsequent period.

In 2018 a significant valuation adjustment was made to the goodwill linked to the Austria component as a result of the industrial and commercial transformation that the directors are implementing (see Note 7).

Greenhouse gas emission allowances-

When acquired from third parties, emission allowances are recognised at cost less any accumulated impairment losses when entitlement thereto arises for the Group. Emission allowances received for no consideration or at a price substantially lower than their fair value are recognised at fair value. The difference between this value and any consideration given is recognised with a credit to "Deferred Income - Government Grants".

The recognition in profit or loss of the amounts presented under "Other Operating Income" in the accompanying consolidated statement of profit or loss is determined on the basis of the emissions made in proportion to the total emissions forecasted for the complete period for which they were allocated (see Note 24).

Emission allowances are not amortised. The Group derecognises emission allowances using the weighted average cost formula.

Works of art-

"Works of Art" includes works of art owned by the Group which are measured at cost less any related impairment losses arising as a result of periodic appraisals by independent valuers. During the year 2018 the works of art were appraised by an independent expert, who concluded that the amounts at which they were measured were correct. Also, in 2018 and 2017 several works of art were sold generating gains (see Note 8), which, in the directors' opinion, is additional evidence that these assets are not overstated.

Works of art are not depreciated since it is considered that they have an indefinite useful life and do not suffer decline in value from the passage of time. This characteristic applies solely to property, plant and equipment in accordance with the applicable legislation. As a result, at 31 December 2017 “Works of Art” was transferred from “Intangible Assets” to “Property, Plant And Equipment” in the accompanying consolidated statement of financial position (see Notes 7 and 8).

Other intangible assets-

Other intangible assets (mostly computer software and related developments) acquired by the Group are presented in the consolidated statement of financial position at cost less any accumulated amortisation and impairment losses.

The Parent's directors recognised at fair value a trademark and an agreement with a strategic customer of the subsidiary IBF SpA, which were recognised in the context of the business combinations performed in 2016 (see Note 7). The Parent's directors consider that the trademark has an indefinite useful life and will perform an impairment test at the end of each year. Similarly, the directors will assess the status of the agreement with the customer at the end of each year.

Research and development expenditure-

The Group recognises research expenditure as an expense in the year in which it is incurred. Development expenditure is capitalised if the following conditions are met:

- It is specifically itemised by project and the related cost can be clearly identified.

- There are sound reasons to foresee the technical success and economic and commercial profitability of the related projects.

Assets thus generated are amortised on a straight-line basis over their years of useful life.

Useful life and amortisation-

Intangible assets with finite useful lives are amortised systematically on a straight-line basis over their estimated years of useful life (between five and ten years).

For these purposes amortisable amount is understood to be acquisition or deemed cost less residual value.

The Group reviews the residual value, useful life and amortisation method applied to the intangible assets at the end of each reporting period. Changes in the criteria initially established are accounted for as a change in estimate.

3.2 Property, plant and equipment

Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, and the surplus resulting therefrom, in accordance with IFRSs, was treated as part of the cost of these assets, less any related accumulated depreciation and impairment losses.

Cost includes the expenses directly attributable to the acquisition of the assets. In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, direct labour and general manufacturing costs calculated using absorption rates similar to those used for the measurement of inventories).

In 2018 the costs capitalised amounted to EUR 7,104 thousand (2017: EUR 7,487 thousand), of which EUR 3,706 thousand, relating mainly to the capitalisation of working hours of the Group's engineers, were recognised under “In-House Work on Non-Current Assets” (31 December 2017: EUR 4,211 thousand). The remaining EUR 3,398 thousand relate to the capitalisation of invoices for external costs which supported the performance of this work (2017: EUR 3,276 thousand), which are recognised under the same heading in which the expense is recognised (basically under “Other Operating Expenses”). Of the EUR 7,104 thousand capitalised (31 December 2017: EUR 7,487 thousand), EUR 5,084 thousand were recognised under “Intangible Assets” (31 December 2017: EUR 4,880 thousand) (see Note 7) and EUR 2,020 thousand were recognised under “Property, Plant and Equipment” (31 December 2017: EUR 2,607 thousand) (see Note 8).

Property, plant and equipment upkeep and maintenance expenses are recognised in the consolidated statement of profit or loss for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Items of property, plant and equipment are depreciated by allocating the depreciable amount thereof to profit or loss on a systematic basis over their useful life. For these purposes depreciable amount is understood to be acquisition or deemed cost less residual value. The Group calculates the depreciation charge separately for each part of an item of property, plant and equipment whose cost is significant in relation to the total cost of the item.

Items of property, plant and equipment are depreciated on a straight-line basis over their years of useful life, the detail being as follows:

	Years of estimated useful life
Buildings	25 - 48
Plant and machinery	5 - 20
Other fixtures, tools, furniture and other items of property, plant and equipment	5 - 10

The directors of the TUBACEX Group periodically review the residual value and useful life of the various items of property, plant and equipment. Changes in the parameters initially established are accounted for as a change in estimate. The Group did not re-estimate the useful life of its assets in 2018 or 2017.

In general, for non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets. The Group capitalised borrowing costs amounting to EUR 1.335 thousand to "Property, Plant and Equipment in the Course of Construction" in 2018 (EUR 703 thousand in 2017).

The Group assesses and calculates the impairment losses and reversals of impairment losses on its property, plant and equipment in accordance with the methods discussed in Note 3.3.

3.3 Impairment of assets

At each reporting date, the TUBACEX Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that these assets might have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

If the recoverable amount of an asset is less than its carrying amount, the related impairment loss is recognised for the difference with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss and a credit to "Property, Plant and Equipment" or "Intangible Assets", as appropriate, in the accompanying consolidated statement of financial position.

Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, except in the case of the impairment of goodwill, which must not be reversed.

In 2017 a significant valuation adjustment was made to the goodwill linked to the Austrian component as a result of the industrial and commercial change that the directors are carrying out (see Note 7).

3.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Finance leases

In finance leases in which the Group acts as the lessee, the cost of the leased assets is presented in the consolidated statement of financial position, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that it will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the consolidated statement of profit or loss for the year in which they are incurred using the effective interest method. Contingent rent is recognised as an expense for the period in which it is incurred.

Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment that are owned.

Operating leases

Expenses resulting from operating leases are charged to income in the year in which they are incurred.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

3.5 Financial instruments

Financial instruments

In accordance with the classification criteria established by IAS 39, the Group classifies its financial assets in the following categories:

a) Financial assets at amortised cost: financial assets held in order to collect contractual cash flows, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   This category also includes “Trade and Other Receivables”, which are recognised initially at fair value in the consolidated statement of financial position, and are subsequently measured at amortised cost using the effective interest rate. The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph. The Group recognises write-downs for the accounts receivable on the basis of the expected credit losses (see Notes 2.2 and 9).

   Also, the Group derecognises trade receivable balances for the amount of the accounts receivable factored provided that substantially all the default and delinquency risks and the rewards inherent to ownership of these accounts receivable (non-recourse factoring) have been transferred. The Group had not used factoring arrangements at 31 December 2018 or 2017.

b) Financial assets at fair value through other comprehensive income: financial assets whose objective is both to collect contractual cash flows and their sale, and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The interest, impairment and exchange differences are recognised in profit or loss as in the amortised cost model. Other changes in fair value are recognised in equity items and may be reclassified to profit or loss on their sale.

However, equity instruments not classified as held for trading may be designated to be measured in this category, although, on the sale of the instrument, the amounts recognised in equity may not be reclassified subsequently to profit or loss, and only dividends may be taken to profit or loss.

c) Financial assets at fair value through profit or loss: this category includes other financial assets not mentioned in the above categories. Financial assets at fair value through profit or loss are initially recognised in the consolidated statement of financial position at the fair value of the consideration given, plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate.

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph.

The Group recognises an allowance for debts in an irregular situation due to late payment, administration, insolvency or other reasons, after performing a case-by-case collectability analysis. In 2018 the net change in the write-downs of accounts receivable was a charge of EUR 4,187 thousand (2017: reversal of EUR 190 thousand) (see Note 14).

The Group derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales, factoring of trade receivables in which the Group does not retain any credit or interest rate risk, sales of financial assets under an agreement to repurchase them at fair value and the securitisation of financial assets in which the transferor does not retain any subordinated debt, provide any kind of guarantee or assume any other kind of risk.

At 31 December 2018, the Group derecognised receivables totalling EUR 65,265 thousand (31 December 2017: EUR 43,512 thousand) (see Note 2.4). At 31 December 2018, the Group had an unused amount of EUR 15,292 thousand in relation to these agreements (31 December 2017: EUR 41.8 million).

However, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of bill discounting, with-recourse factoring, sales of financial assets under an agreement to repurchase them at a fixed price or at the selling price plus interest and the securitisation of financial assets in which the transferor retains a subordinated interest or any other kind of guarantee that absorbs substantially all the expected losses. At 31 December 2018, the Group had transferred assets in which substantially all the risks and rewards of ownership are retained, amounting to EUR 8,073 thousand (31 December 2017: EUR 23,409 thousand) (see Note 18).

The directors of the TUBACEX Group decide on the most appropriate classification for each asset on acquisition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits at banks and other short-term, highly liquid investments with current initial maturity, which are subject to an insignificant risk of changes in value. For these purposes, cash and cash equivalents include investments maturing in less than three months from the date of acquisition.

Trade and other payables

Accounts payable are initially recognised at market value and are subsequently measured at amortised cost using the effective interest rate.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

Bank borrowings and other financial liabilities

Bank borrowings and other financial liabilities are initially recognised at the proceeds received, net of transaction costs, i.e. equivalent to the subsequent application of the amortised cost model, for which the effective interest rate is used. Borrowing costs are recognised in the consolidated statement of profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise (see Note 18).

Derivative financial instruments

The Group uses derivative financial instruments to hedge the risks to which its future activities, transactions and cash flows are exposed. Basically, these risks relate to changes in exchange rates and interest rates.

In order for these financial instruments to qualify for hedge accounting, they must be initially designated as such and the hedging relationship must be documented. It is necessary to verify at inception and periodically over the term of the hedge that the hedging relationship is effective.

The fair values of certain derivative financial instruments used for hedging purposes are disclosed in Note 15. All of the fair value of a hedging instrument is classified as a non-current asset or liability if the remaining hedged item matures within more than twelve months, and as a current asset or liability if the remaining hedged item matures within twelve months. Held-for-trading derivatives are classified as current assets or liabilities based on their maturity.

The Group uses cash flow hedges.

At the inception of the hedge, the Group designates and formally documents the hedging relationship and the objective and strategy for undertaking the hedge. Hedge accounting only applies when the hedge is expected to be highly effective from inception and in subsequent years in offsetting the changes in the fair value or cash flows of the hedged risk during the life of the hedge (prospective analysis) and the actual effectiveness of the hedge, which can be reliably calculated (retrospective analysis).

Additionally, in relation to cash flow hedges of forecast transactions, the Group assesses whether such transactions are highly probable and whether they are exposed to changes in cash flows that might ultimately affect profit for the year.

The Group only designates as hedged items the assets, liabilities and highly probable forecast transactions that involve a non-Group third party.

The portion of the gains or losses arising from measurement at fair value of the hedging instrument that is identified as an effective hedge is recognised temporarily as income and expenses in equity. The portion of the hedge considered to be ineffective and the specific gains or losses on or cash flows relating to the hedging instrument, which are excluded from the assessment of the effectiveness of the hedge, are charged or credited to "Finance Costs" or "Finance Income", respectively, in the consolidated statement of profit or loss.

When hedge accounting is discontinued, any cumulative loss or gain at that date recognised under “Valuation Adjustments - Hedges” is retained under this heading until the hedged transaction occurs, at which time the loss or gain on the transaction is adjusted. If a hedged transaction is no longer expected to occur, the gain or loss recognised under the aforementioned heading is transferred to the consolidated statement of profit or loss.

3.6 Treasury shares

The treasury shares held by the TUBACEX Group at 31 December 2018 and 2017, which amounted to EUR 7,850 thousand, were recognised at acquisition cost as a reduction of “Equity - Shareholders' Equity” in the consolidated statement of financial position.

3.7 Inventories

Inventories are measured at the lower of cost (which comprises all costs of purchase, costs of conversion and direct and indirect costs incurred in bringing the inventories to their present location and condition) and net realisable value (which is the estimated selling price of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale).

The formula used by the Group to calculate the cost of each class of inventories is as follows:

a. Goods held for resale: at acquisition cost calculated using the weighted average cost method.

b. Raw materials and goods held for conversion: at weighted average cost.

c. Work in progress and finished goods: at weighted average cost of raw and other materials used, including costs directly related to the units produced, as well as a systematically allocated portion of the fixed and variable indirect costs incurred during conversion of the inventories.

In the measurement of inventories, costs linked to low production or idle plant were not capitalised.

The cost of inventories is written down where cost exceeds net realisable value. For these purposes, net realisable value is taken to be:

- Raw materials and goods held for processing: replacement cost. However, the Group does not write down raw materials and other supplies if the finished products in which they will be incorporated are expected to be disposed of at or above production cost;

- Goods held for resale and finished goods: estimated selling price less the costs necessary to make the sale;

- Work in progress: the estimated selling price of the related finished goods less the estimated costs of completion and selling costs.

Inventory write-downs and reversals are recognised under "Changes in Inventories of Finished Goods and Work in Progress" and "Procurements" in the consolidated statement of profit or loss for the year.

3.8 Foreign currency transactions and other obligations

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2.6. The remaining non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at each year-end, and the positive and negative exchange differences between the exchange rate used and the year-end exchange rate were recognised in income. Foreign currency transactions for which the TUBACEX Group decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3.5.

3.9 Current/Non-current classification

In the accompanying consolidated statement of financial position debts are classified on the basis of their maturity at year-end. Current debts are those due to be settled within twelve months and non-current debts are those due to be settled within more than twelve months.

3.10 Government grants

The Group companies recognise government grants received as follows:

1) Non-refundable grants, donations and legacies related to assets: These are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.

2) Refundable grants: While they are refundable, they are recognised as a liability.

3) Grants related to income: Grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

Also, grants, donations and legacies received from the shareholders or owners do not constitute income and must be recognised directly in equity, regardless of the type of grant involved, provided that they are not refundable.

3.11 Employee benefit obligations

Pension obligations

The Group assumed certain obligations to employees which qualify for classification as defined benefit plans. Another part of these obligations was covered in prior years by arranging a single-premium insurance policy. At 31 December 2018, these obligations amounted to EUR 6,301 thousand (31 December 2017: EUR 6,665 thousand) and were recognised under "Non-Current Liabilities – Employee Benefit Obligations" in the accompanying consolidated statement of financial position (see Note 21).

Actuarial gains and losses arising from the Group's defined benefit obligations to its employees are recognised in the consolidated statement of comprehensive income.

Other long-term employee benefits

At its meeting of 25 March 2013, the Parent's Board of Directors approved a long-term incentive plan for the members of the Group's Management Committee, who are senior executives of the Tubacex Group (see Note 25). The plan consisted of multiannual remuneration linked to the achievement of the main targets included in the 2013-2018 Strategic Plan (see Note 21) and of a share option plan (see Notes 3.12 and 16.6). The multiannual remuneration ended on 31 December 2017, but at its meeting of May 2018, the Parent's Board of Directors, approved the delay of the period ended to 31 March 2019. The share option plan ended on 31 December 2015, after which a new plan was approved on 25 May 2016 by the Board of Directors and by the shareholders at the Annual General Meeting, as explained in Notes 3.12 and 16.6.

Also, under the obligations assumed by certain subsidiaries to their employees, the Group is obliged to award long-service bonuses upon retirement and other benefits agreed upon with the employees which are paid more than twelve months after the end of the period in which they accrue.

The Group recognised in the accompanying consolidated financial statements as at 31 December 2018 liabilities arising from these obligations amounting to EUR 1.561 thousand under "Current Liabilities" in the consolidated statement of financial position (31 December 2017: EUR 1,386 thousand) (see Notes 21 and 25).

3.12 Share-based payments

The Group recognises, on the one hand, the goods and services received as an asset or as an expense, depending on their nature, when they are received and, on the other, the related increase in equity, if the transaction is equity-settled, or the related liability if the transaction is settled with an amount based on the value of the equity instruments.

In the case of equity-settled transactions, both the services rendered and the increase in equity are measured at the fair value of the equity instruments granted, by reference to the grant date. However, in the case of cash-settled share-based payments, the goods and services received and the related liability are recognised at the fair value of the latter, with reference to the date on which the requirements for their recognition are met.

In the case of equity-settled share-based payments, this fair value is charged on a straight-line basis over the vesting period to “Staff Costs” in the consolidated statement of profit or loss and with a credit to “Other Equity Instruments” in the consolidated statement of financial position (see Note 16.6), based on the Group's estimate of the shares that will eventually vest.

Fair value is measured using the market prices available on the measurement date, taking into account the characteristics of the related plan. If market prices are not available, generally accepted valuation techniques for measuring financial instruments of this nature are used (see Note 16.6).

The Group recognised in the accompanying consolidated financial statements as at 31 December 2018 EUR 140 thousand (31 December 2017: EUR 511 thousand) in connection with the obligation relating to the incentive plans recognised under “Other Equity Instruments” in the accompanying consolidated statement of financial position.

3.13 Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying consolidated financial statements do not include any material provision in this connection since no situations of this nature are expected to arise.

3.14 Income tax

On 26 December 2013, the provincial tax authorities of Álava received notification of the intention of the Parent and of certain subsidiaries located in the Basque Country and subject to Álava income tax legislation to file consolidated tax returns from 1 January 2014 in accordance with Álava Income Tax Regulation 37/2013, of 13 December. Tubacex, S.A. is the parent of the tax group. In 2016 Tubacex Advance Solutions, S.L.U., Tubacex Services Solutions Holding, S.L.U. and Tubacex Upstream Technologies, S.A. were included in the scope of consolidation.

Companies that file consolidated tax returns apply the criteria provided for under the Resolution issued by the Spanish Accounting and Audit Institute (ICAC) of 9 October 1997 in order to recognise the accounting effects of the consolidated filing of tax returns (see Note 22).

The other Group companies file separate income tax returns in accordance with the tax regimes applicable to them on the basis of the locations of their registered offices.

The expense for Spanish income tax and similar taxes applicable to the consolidated foreign companies is recognised in the consolidated statement of profit or loss, unless it arises from a transaction whose results are recognised directly in equity, in which case the related tax is also recognised in equity.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities, and any tax loss and tax credit carryforwards.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets recognised for tax loss and tax credit carryforwards and temporary differences are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Pursuant to IFRSs, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities, respectively.

3.15 Provisions and contingencies

When preparing the consolidated financial statements the TUBACEX Group's directors made a distinction between:

a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and

b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Group's control.

The consolidated financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Group is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

Provision for emission allowances-

The expenses relating to greenhouse gas emissions are recognised systematically with a credit to the provision for emission allowances which is reversed on delivery of the related allowances granted by public authorities for no consideration or acquired in the market.

The provision is calculated on the basis that the obligation will be settled:

- Firstly, using the emission allowances transferred to the Parent's credit account at the National Emission Allowance Registry under a National Allocation Plan. The expense corresponding to this part of the obligation is determined on the basis of the carrying amount of the emission allowances transferred.

- Then the remaining emission allowances recognised are used. The expense corresponding to this part of the obligation is determined using the average price or weighted average cost of these emission allowances.

- Since the Group has sufficient emission rights, it did not need to recognise any additional provisions for the need to acquire additional rights.

3.16 Revenue recognition

Revenue from sales and services rendered is measured at the fair value of the assets or rights received as consideration for the goods and services provided in the normal course of the Group companies' business, net of discounts and applicable taxes.

Sales of goods

Sales of goods are recognised when substantially all the risks and rewards of ownership of the goods have been transferred, the Group does not retain effective control over them, revenue can be measured reliably and is likely to be received and the transaction costs incurred or to be incurred can be measured reliably.

Interest and dividends

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

3.17 Environmental matters

The Group recognises environmental investments at acquisition or production cost, net of the related accumulated depreciation, and classifies them by nature in the appropriate non-current asset accounts (see Notes 8 and 29).

Expenses incurred in order to comply with the applicable environmental legislation are classified by nature under “Other Operating Expenses” in the accompanying consolidated statement of profit or loss (see Note 29).

Expenses arising from greenhouse gas emissions (Law 1/2005, of 9 March) are recognised at their fair value or at the cost of the rights allocated or acquired with a credit to the related provision account when these gases are emitted during the production process.

3.18 Consolidated statement of cash flows

The following terms are used in the consolidated statement of cash flows, which was prepared using the indirect method, with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities. The principal revenue-producing activities of the TUBACEX Group companies and other activities that are not investing or financing activities.

- Investing activities. The acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities. Activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

The Group classifies interest received as cash flows from investing activities and interest paid as cash flows from financing activities. Dividends paid are classified as financing activities.

3.19 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the TUBACEX Group by the weighted average number of ordinary shares outstanding in the year, excluding the average number of TUBACEX shares held in the year.

Diluted earnings per share are calculated by dividing the net profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the year, adjusted by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the Parent.

At 31 December 2018 and 2017, basic earnings per share coincided with diluted earnings per share, since there were no potential shares outstanding during the years then ended (see Note 23).

3.21 Related party transactions

In all the transactions the Group performs with related parties, it fixes transfer prices in line with the OECD guidelines governing transactions with Group companies and associates. Therefore, the Parent's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future that have not already been recognised.

4. Allocation of the loss of the Parent

The proposed allocation of the loss for the year that the Parent's directors will submit for approval by the shareholders at the Annual General Meeting is as follows (in thousands of euros):

	2018
Dividends	6.000
Retained earnings	7.669
Total	**13.669**

With regard to the amounts allocated to dividends, the Board of Directors, at its meeting held on 19 December 2018, resolved to distribute an interim dividend of EUR 3,000 thousand, which is recognised under "Equity - Interim Dividend" in the consolidated statement of financial position as at 31 December 2018 and had been paid in full at the date of authorisation for issue of these consolidated financial statements.

The (unaudited) provisional accounting statement prepared in accordance with legal requirements evidencing the existence of sufficient liquidity for the distribution of dividends is as follows:

	Thousands of euros
	Provisional accounting statement prepared on 30 November 2018
Profit for the period from 1 January to 30 November 2018	840
Revenue from provision of services	24,074
Projected (staff, operating, finance) expenses/costs	(9,718)
Depreciation and amortisation charge	(140)
Projected profit before tax	13,376
Estimated income tax payable	(2,910)
Maximum amount for possible distribution	10,466
Projected interim dividend	(3,000)
Liquidity available at resolution date	**28,289**

5. Financial risk management policy and other

The TUBACEX Group engages in activities that are exposed to various financial risks: market risk (including foreign currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The financial risk management policy adopted by the TUBACEX Group focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's financial performance. The Group uses derivatives to hedge certain risks.

Risk management is controlled by the Group's Financial Department in accordance with the policies approved by the Board of Directors. This Department identifies, assesses and hedges financial risks in close cooperation with the Group's Administration and Financial and Purchasing Departments. The Board of Directors sets policies for global risk management, as well as for specific matters such as foreign currency risk, interest rate risk, liquidity risk, the use of derivative and non-derivative instruments and investment of surplus liquidity.

5.1 Market risk

5.1.1) Foreign currency risk-

The Group operates in the international market and, therefore, is exposed to foreign currency risk on the transactions performed by it in foreign currencies, particularly the US dollar, and, as a result of the business combination carried out in India in 2015, gradually increased exposure to the Indian rupee is expected as business in that country grows. Foreign currency risk arises on future commercial purchases of raw materials and sales of products in foreign currencies, recognised assets and liabilities and net investments in foreign operations.

At 31 December 2018, had the euro depreciated by 10% against the US dollar, with all other variables remaining unchanged, consolidated loss after tax would have been EUR 2,655 thousand lower (2017: EUR 9,793 thousand lower), without taking into account the hedging policy.

The Group companies use forward foreign currency purchases and sales arranged with banks to hedge the foreign currency risk arising from future commercial purchases of raw materials and sales of products in foreign currencies and recognised assets and liabilities. Foreign currency risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Group's functional currency. The Group's Financial Department is responsible for managing the net position in foreign currencies using external foreign currency forward contracts. Note 12 contains a detail of the forward foreign currency purchase and sale contracts at 31 December 2018 and 2017.

For reporting purposes, Group management designates external foreign currency contracts as foreign currency risk hedges of certain assets, liabilities or future transactions.

The Group has various investments in foreign operations the net assets of which are exposed to foreign currency risk, mainly in US dollars but also in Indian rupees, as a result of the new investment carried out. The Group assumes the foreign currency risk on the net assets of its foreign operations since it is not representative of total assets. At 31 December 2018, net assets held in the US amounted to approximately EUR 49,857 thousand (2017: approximately EUR 45,499 thousand), while the net assets held in India amounted to approximately EUR 37,504 thousand (2017: approximately EUR 37,893 thousand) (see Note 2.3).

5.1.2) Commodity price risk-

In the strategic plan, the directors have set as a key objective the reduction of the impact of commodity price volatility on the consolidated statement of profit or loss, and Group management maintains firm control over the working capital positions, on the basis of the periodic milestones in the production process and billings, in order to minimise the aforementioned volatility impact.

In the case of sales orders negotiated at a variable price, commodity price risk is significantly offset by the implicit hedge provided by the alloy surcharges that the Group passes on to its customers in the selling price, by means of which the Group achieves a highly effective natural hedge.

For sale orders negotiated at a fixed price, since March 2007, the Group has used commodity price futures contracts whose expected maturity is in line with the commencement of production of each order so as to ensure the margins set on arrangement of the sale are obtained.

In addition, since December 2018 the Group has arranged commodity futures contracts for the inventories of one of the Group companies.

At 31 December 2018, had the price of nickel risen or fallen by 10%, consolidated purchases would have risen or fallen by approximately EUR 8.532 thousand (2017: approximately EUR 6,992 thousand), an amount that was mitigated by the effect on the sales price of the alloy surcharges.

Additionally, had commodity prices as a whole risen or fallen by 10%, consolidated purchases would have risen or fallen by approximately EUR 15.275 thousand (2017: approximately EUR 13,090 thousand).

Also, the market price of oil implicitly influences the consolidated statement of profit or loss, although the quantification of this impact is not possible. This is a result of the correlation between crude oil prices and the reduction in orders from the oil and gas market, to which the Group supplies its high-value-added products. The strategic plan sets objectives such as value chain growth, increasing product diversification and seeking geographical diversification for the Tubacex Group in order to offset exposure to oil prices and one-off macroeconomic events in the various markets. The transactions detailed in Notes 2.6 and 31 are in line with these objectives established in the 2013-2017 Strategic Plan.

5.1.3) Available-for-sale financial assets-

Market risk arises mainly from investments in investment funds classified as held for sale. The main objective of the Group’s investment policy is to maximise returns on investments, while keeping risks under control.

5.1.4) Investments in works of art-

The Group is also exposed to market risk due to its investments in works of art, which are recognised under "Property Plant and Equipment" (see Notes 7 and 8). The Group periodically commissions independent third party appraisals in order to identify potential unrealised losses, and an appraisal performed in 2015 concluded that the assets were correctly valued. The directors also consider that sales in 2016 show that the carrying amount thereof is lower than their fair value.

5.2 Credit risk

The Group does not have any material credit risk concentration. In order to hedge the credit risk on sales, the Group implements a prudent hedging policy mainly with credit insurance companies in the event that sales are not made to highly solvent customers.

Derivatives transactions and spot transactions are only carried out with banks with high credit ratings. The Group has policies to limit the amount of risk exposure to any given bank.

At 31 December 2018, the exposure of the Group's assets to this risk was limited mainly to the committed collection rights recognised under "Trade Receivables for Sales and Services", which total EUR 82,685 thousand (2017: EUR 77,800 thousand, of which EUR 2,503 thousand related to amounts to be billed for work performed associated with a construction contract). Impairment losses amounting to EUR 6,421 thousand (2017: EUR 2,451 thousand) were recognised on part of these committed collection rights since the Group considered the recovery thereof as doubtful (see Note 14).

At 31 December 2018, the past-due unimpaired committed collection rights recognised under these headings amounted to approximately EUR 24,768 thousand (2017: approximately EUR 25,408 thousand). Most of these collection rights are less than two months past due and the Group does not consider their recovery to be doubtful, since normal business operations occasionally result in collection delays for reasons other than the risk of default. At the date of formal preparation of these consolidated financial statements the Group had collected most of the receivables which were past due at 31 December 2018.

5.3 Liquidity risk

The Group manages liquidity risk prudently by arranging loans with extended maturities and favourable financial conditions, credit lines with extended limits, a portion of which are not drawn down, allowing for the availability of credit in the short term, factoring facilities which help bring forward collections from clients, reverse factoring arrangements which facilitate the management of payments to suppliers, and by diversifying the financing obtained, spreading financial creditors among several banks, the public authority that grants loans from the Spanish Centre for Industrial Technological Development (CDTI), the European Investment Bank, or seeking financing in the Alternative Fixed Income Market (MARF) (see Notes 18 and 19). All of these mechanisms help the Tubacex Group to maintain a good liquidity position.

In 2018 the Group entered into an agreement with Compañía Española de Financiación del Desarrollo (COFIDES) to finance investments totalling EUR 30 million, which had been drawn down in full at 31 December 2018. This agreement is subject to certain clauses with respect to its enforcement which the directors considered had been fulfilled at 31 December 2018.

Current income tax liabilities will be settled approximately seven months after 31 December 2018.

The detail of “Trade and Other Payables”, by maturity, is as follows:

	Thousands of euros	
	2018	2017
Within 3 months	154,001	147,009
Between 3 and 12 months	49,045	17,499
After 12 months	1,361	775
	204,649	**165,283**

5.4 Cash flow and fair value interest rate risk

Since the Group does not have any significant interest-earning assets, most of the income and cash flows from the Group’s operating activities are largely unaffected by changes in market interest rates.

The Group's interest rate risk arises from current and non-current borrowings. Debt issued at floating rates exposes the Group to cash flow interest rate risk. This risk is hedged using mainly interest rate swaps (see Note 12). Fixed-rate loans expose the Group to fair value interest rate risk.

Current and non-current loans and other interest-bearing liabilities at 31 December 2018 amounted to EUR 444,585 thousand (2017: EUR 408,454 thousand). In 2018 the average balance of current bank borrowings was approximately EUR 207 million (2017: approximately EUR 259 million). Taking into account the balance drawn down, in 2017 a 5% rise or fall in the market interest rates would have given rise to a rise or fall, respectively, of EUR 789 thousand in loss before tax (2017: EUR 481 thousand), without taking into consideration the impact of the derivative.

The fair values of the various consolidated statement of financial position categories do not differ substantially from their carrying amounts at 31 December 2018 and 2017.

Disclosures on the fair value hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (e.g. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Upon inception, the fair value of the derivatives arranged by the Group equals their transaction price in their principal market (the retail market).

For financial reporting purposes, the fair value measurements are classified into Level 1, 2 or 3 depending on the degree to which the inputs used are observable and their importance for measuring fair value in its entirety, as described below:

- Level 1 - these inputs are based on quoted prices (unadjusted) for identical instruments traded in active markets.

- Level 2 - these inputs are based on quoted prices for similar instruments in active markets (not included in Level 1), quoted prices for identical or similar assets or liabilities in markets that are not active, and techniques based on valuation models for which all the significant inputs are observable in the market or may be corroborated by observable market data.

- Level 3 - the inputs are generally unobservable and, in general terms, they reflect estimates of the market assumptions for determining the price of the asset or liability. The unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

The Group concluded that most of the inputs used for determining the fair value of the derivative financial instruments are at Level 2 of the hierarchy, including the data used for calculating the credit risk adjustment of the Group and the counterparty. Although the Group made this determination, the credit risk adjustments used Level 3 inputs, such as the credit estimates based on credit ratings or on comparable companies in order to assess the likelihood of default by the company or the company's counterparties.

6. Segment reporting

6.1 Basis of segmentation

As described below, the Group is internally organised by operating segments, which are the strategic business units. The strategic business units have various products and services and are managed separately because they require different technology and market strategies.

Information on the Tubacex Group's product portfolio, the markets in which it operates and its general sales conditions is provided on the Group's corporate website.

At 31 December 2018 and 2017, the Group comprised the following operating segments, the main products and services of which are as follows:

- Stainless segment
- Carbon segment

6.2 Basis and methodology for segment reporting

The performance of the segments is measured on the basis of their profit or loss before tax. Segment profit is used as a measure of performance since the Group considers that this information is the most relevant when assessing the results of certain segments in relation to other groups operating in these businesses.

In accordance with the basis for primary segment reporting set forth in IFRSs (IFRS 8, Operating Segments), the TUBACEX Group considered the two aforementioned business units as operating segments, since it considers that their organisational and management structures and their systems of internal reporting to their managing and executive bodies are such that the risks and returns are affected predominantly by the fact that their operations are performed in one or the other business area, taken to be all of the related products and services. Therefore, through segment reporting, the identifiable components of the TUBACEX Group characterised by being subject to risks and returns of a different nature to those corresponding to other operations carried on in other areas are identified.

In this respect, based on historical experience, the following segments were defined:

- Seamless stainless steel pipes

- Carbon steel pipes

Segment information about the businesses is presented below:

	Thousands of euros					
	Stainless steel pipe segment		Carbon steel pipe segment		Total consolidated	
	2018	2017	2018	2017	2018	2017
Total segment revenue	652,970	468,833	24,354	21,528	677,324	490,361
Depreciation and amortisation charge and impairment losses	(34,936)	(54,004)	(190)	(193)	(35,126)	(54,197)
Inventory write-downs (Note 13)	8,011	(3,075)	-	-	8,011	(3,075)
Finance income	2.349	2,072	95	113	2,444	2,185
Finance costs	(17,123)	(11,233)	(401)	-	(17,123)	(11,233)
Share in profits of companies accounted for using the equity method	(112)	8	-	-	(112)	8
Exchange differences	236	(1,786)	-	-	236	(1,786)
Prucurements and Other expenses	(595,991)	(442,838)	(19,967)	(18,508)	(608,348)	(461,346)
Segment profit (loss) before tax	**15,404**	**(42,023)**	**3,891**	**2,940**	**19,295**	**(39,083)**
Income tax expense	(71)	15,806	(1,040)	(831)	(1,111)	14,975
Profit (Loss) for the year	**15,333**	**(26,217)**	**2,851**	**2,109**	18,184	**(24,108)**
Segment assets	943,953	869,526	42,567	36,304	986,520	905,830
Investments accounted for using the equity method	240	346	-	-	240	346
Total segment assets	**944,193**	**869,872**	**42,567**	**36,304**	986,760	**906,176**
Investments in non-current fixed assets	26,695	34,830	212	58	26,907	34,888
Total segment liabilities	**680,900**	**618,907**	**9,569**	**5,454**	**690,469**	**624,361**

The business segments are managed at global level since the Group operates throughout the world, its main markets being Europe, the US and India (see Note 2.6). The main activities in Europe are carried on in Spain, Germany, Austria, France, Italy, the Netherlands and the United Kingdom.

In geographical segment reporting, revenue and segment assets are based on the geographical location of customers and of assets, respectively.

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2018 and 2018 is as follows (in thousands of euros):

Geographical area	2018	%	2017	%
Spain	65,919	10%	42,910	9%
Rest of Europe	250,126	37%	240,391	49%
US	56,969	8%	39,950	8%
Other countries	304,310	45%	167,110	34%
Total sales	**677,324**	**100%**	**490,361**	**100%**

b) The distribution, by geographical area, of net investments in non-current assets at 31 December 2018 and 2017 is as follows (in thousands of euros):

Geographical area	2018	%	2017	%
Spain	177,753	46%	199,264	49.6%
Rest of Europe	148,254	38%	151,274	37.6%
India	27,527	7%	29,084	7.2%
US	30,433	8%	20,629	5.1%
Thailand	3,866	1%	1,579	0.4%
Brazil	202	0%	15	0%
Total non-current assets	**388,035**	**100%**	**401,845**	**100%**

7. Intangible assets

The detail of "Intangible Assets" and of the changes therein in 2018 and 2017 is as follows (in thousands of euros):

	Thousands of euros				
	Goodwill	Works of art (Note 8)	Other intangible assets	Greenhouse gas emission allowances	Total
Cost-					
Cost at 01/01/17	**28,383**	**5,550**	**62,842**	**562**	**97,337**
Additions	-	-	8,398	156	8,554
Disposals	-	-	(1,187)	-305	(1,492)
Transfers	-	(5,550)	-	-	(5,550)
Translation differences	-	-	(2)	-	(2)
Cost at 31/12/17	**28,383**	**-**	**70,051**	**413**	**98,847**
Additions	-	-	5,692	240	5,932
Disposals	(100)	-	(8)	(292)	(400)
Translation differences	-	-	35	-	35
Cost at 31/12/18	**28,283**	**-**	**75,770**	**361**	**104,414**
Accumulated amortisation-					
Accumulated amortisation at 01/01/17	-	-	**(24,968)**	-	**(24,968)**
Charge for the year	-	-	(4,348)	-	(4,348)
Disposals	-	-	1,044	-	1,044
Translation differences	-	-	6	-	6
Accumulated amortisation at 31/12/17	-	-	**(28,266)**	-	**(28,266)**
Charge for the year	(527)	-	(5,011)	-	(5,538)
Disposals	-	-	-	-	-
Translation differences	-	-	-	-	-
Accumulated amortisation at 31/12/18	(527)	-	**(33,277)**	-	**(33,804)**
Accumulated impairment losses at 31/12/17	**(16,275)**	**-**	**(2,400)**	**-**	**(18,675)**
Charge for the year	**-**	**-**	**-**	**-**	**-**
Accumulated impairment losses at 31/12/18	**(16,275)**	**-**	**(2,400)**	**-**	**(18,675)**
Net intangible assets at 31/12/17	**12,108**	**-**	**39,385**	**413**	**51,906**
Net intangible assets at 31/12/18	**11.481**	**-**	**40.096**	**361**	**51,935**

The most significant additions in 2018 related to research and development work in connection with new products or more efficient work methods in the production plants amounting to EUR 4,929 thousand (2017: EUR 4,880 thousand) (see Note 3.2).

At 2018 year-end the Group had fully amortised intangible assets in use (mostly computer software) amounting to EUR 12,888 thousand (2017 year-end: EUR 14,075 thousand).

7.1 Goodwill

The detail of goodwill is as follows:

2018

	31/12/17	Impairment	Allocation	31/12/18
TSS Austria	2,000		(627)	1,373
Tubacex Prakash India Pvt Ltd	10,008		-	10,008
MIS	100		-	100
Total	**12,108**		**(627)**	**11.481**

2017

	31/12/17	Impairment	Allocation	31/12/18
Schoeller- Bleckmann (Sber)	18,275	(16,275)	(2,000)	-
TSS Austria	-		2,000	2,000
Tubacex Prakash India Pvt Ltd	10,008		-	10,008
MIS	100		-	100
Total	**28,383**	**(16,275)**	-	**12,108**

Goodwill of Tubacex Prakash India Pvt Ltd

The acquisition by the Indian subsidiary Tubacex Prakash India Pvt Ltd of the production line of Prakash Steelage Pvt Ltd for INR 2,091 million gave rise to a difference of INR 708 million between the price paid and the net assets acquired (EUR 10,008 thousand).

As in the case of the test for the impairment of goodwill of SBER, the recoverable amount of this CGU was calculated on the basis of its value in use. These calculations use cash flow projections based on five-year financial budgets approved by management. Management determined the budgeted gross margin for the Indian company on the basis of its expectations regarding the evolution of the market. Specifically, management used as main assumptions significant annual growth in sales volumes and post-tax discount rate used in the cash flow projections of 8.1% and a growth rate equal to a 1.9%.

Based on the estimates and forecasts available to the Group's directors, the projected net cash flows attributable to this cash generating unit support the value of this goodwill, concluding that it is not impaired at 31 December 2018.

From a sensitivity-analysis standpoint, an increase of 100 basis points in the discount rate would not give rise to impairment of this goodwill. Similarly, a 100 basis point reduction in the assumption of annual sales growth, to 5% annual growth, would not give rise to impairment.

7.2 Emission allowances

The detail of the fair value at 31 December 2017 and initial value of the non-monetary grants relating to emission allowances received by the Group companies in 2018 and 2017 is as follows:

Thousands of euros			
2018		2017	
Fair value	Initial value	Fair value	Initial value
35	240	116	157

The detail of the changes in the number of allowances in 2018 and 2017 is as follows:

	Number of allowances
Balances at 31 December 2017	**59,010**
Additions	30,980
Disposals	(41,552)
Balances at 31 December 2018	**48,438**

7.3 Other intangible assets

In 2015 assets arising from the purchase of IBF S.p.A. were recognised at their fair value under “Intangible Assets”. Specifically, these assets relate to a brand amounting to EUR 11.7 million; an agreement with a strategic customer to produce a specific product for the amount of EUR 9.6 million; and a customer portfolio amounting to EUR 1.5 million, which was valued by an independent expert as part of a purchase price allocation process. The revaluation of these assets gave rise to a deferred tax liability which was recognised in order to reflect the transaction net of its tax effect (see Note 22) in the accompanying consolidated financial statements.

The brand (since it has an indefinite useful life) and the agreement with the strategic customer are tested each year to ascertain whether they have become impaired. Furthermore, the customer portfolio was fully amortised in 2015 (see Note 3.1).

IBF brand

At the end of 2018 the directors assessed whether the intangible asset relating to the IBF brand had become impaired. To determine the recoverable amount, the directors used the royalty rate approach, which is based on the value of the asset being equal to the present value of the income obtained or the theoretical income from collecting a royalty that the asset generates or might generate. The asset is discounted to present value using a discount rate plus a premium, since it is considered that due to its nature it is an asset the projected cash flows of which are subject to increased risk.

The main assumptions assumed to test the brand for impairment were:

- Sales projections based on four-year financial budgets approved by the directors. These projected sales are lower than the sales projected in the purchase price allocation (PPA) process performed in 2015.
- The directors estimated the sales between 2019 and 2021 on the basis of their market development projections and taking into consideration that the current commodities market situation is particularly unfavourable but will not continue long term.
- The directors consider that, at long term, the assumptions regarding the company's market potential used in the acquisition of IBF, S.p.A. have not changed.
- A royalty rate of 0.86% was used, which is similar to the rate used by the independent expert when performing the PPA process.
- The cash flows were discounted to present value using a discount rate of 10.1% (corresponding to a WACC of 8.1% plus a 2% risk premium).

Based on the results of the foregoing test, at 31 December 2018, the Parent's directors consider that the IBF brand has not become impaired. However, this intangible asset will be tested for impairment at least once a year.

Agreement with strategic customer

With respect to the intangible asset in relation with the agreement with the strategic customer, it is associated with four orders for a specific product which, when the asset was recognised, it was envisaged would be received prior to 2021, and the asset would be amortised as the various orders were produced. Although management considers that IBF will be the successful bidder for the orders in the coming years, there are indications of a delay in relation to the timetable initially envisaged when IBF was acquired to gain the aforementioned orders, and the best estimate at 31 December 2018 is that three orders will be placed before 2021. Therefore, an impairment loss of EUR 2.4 million (amount equivalent to one of the four orders initially estimated) was included in the consolidated statement of profit or loss with a charge to “Depreciation and Amortisation Charge and Impairment Losses on Non-Current Assets”.

In 2018, in view of the prospects of a recovery in the nuclear energy market and the situation of the strategic customer to whom this agreement relates, the Group's directors had not considered it necessary to recognise any additional impairment loss.

Also, "Other Intangible Assets" in the accompanying consolidated statement of financial position includes EUR 14.2 million in relation to computer software.

8. Property, plant and equipment

The detail of “Property, Plant and Equipment” in the consolidated statement of financial position and of the changes therein in 2018 and 2017 is as follows:

	Thousands of euros						
	Land	Buildings	Plant and machinery	Other fixtures, tools, furniture and other items of property, plant and equipment	Works of art (Note 7)	Advances and property, plant and equipment in the course of construction	Total
Cost-							
Cost at 01/01/17	**26,144**	**112,548**	**586,474**	**37,245**	**-**	**17,495**	**779,906**
Addition to the scope of consolidation	199	1,380	-	-	-	-	1,579
Additions	-	414	22,078	2,602	-	9,794	34,888
Disposals	-	(77)	(5,770)	(2,670)	-	-	(8,517)
Transfers	-	536	13,786	1,610	5,550	(15,932)	5,550
Translation differences	(451)	(2,061)	(4,159)	(128)	-	(446)	(7,245)
Cost at 31/12/17	**25,892**	**112,740**	**612,409**	**38,659**	**5,550**	**10,911**	**806,161**
Additions	-	33	15,527	2,894	-	7,469	25,923
Disposals	-	-	(246)	(2,792)	(1,162)	(185)	(4,385)
Transfers	-	175	3,637	1,250	-	(5,067)	(5)
Translation differences	19	341	1,298	189	-	90	1,937
Cost at 31/12/18	**25,911**	**113,289**	**632,625**	**40,200**	**4,388**	**13,218**	**829,631**
Accumulated depreciation-							
Accumulated depreciation at 01/01/17	**-**	**(72,610)**	**(409,875)**	**(29,800)**	**-**	**-**	**(512,285)**
Charge for the year	-	(2,154)	(26,102)	(2,918)	-	-	(31,174)
Disposals	-	68	5,681	1,651	-	-	7,400
Translation differences	-	354	2,665	50	-	-	3,069
Accumulated depreciation at 31/12/17	**-**	**(74,342)**	**(427,631)**	**(31,017)**	**-**	**-**	**(532,990)**
Charge for the year	-	(2,255)	(24,566)	(3,294)	-	-	(29,588)
Disposals	-	-	267	1,623	-	-	1,890
Translation differences	-	(110)	(829)	(16)	-	-	(955)
Accumulated depreciation at 31/12/18	**-**	**(76,707)**	**(452,759)**	**(32,176)**	**-**	**-**	**(561,643)**
Accumulated impairment losses at 31/12/17	**-**	**-**	**-**	**-**	**(736)**	**-**	**(736)**
Disposals	-	-	-	-	405	-	405
Accumulated impairment losses at 31/12/18	**-**	**-**	**-**	**-**	**(331)**	**-**	**(331)**
Net property, plant and equipment at 31/12/17	**25,892**	**38,398**	**184,778**	**7,642**	**4,814**	**10,911**	**272,435**
Net property, plant and equipment at 31/12/18	**25,911**	**36,582**	**179,866**	**8,024**	**4,057**	**13,218**	**267,658**

The main additions in 2018 correspond to investments aimed at the automation and process improvement of the umbilical technical facilities of the Austrian subsidiary and the purchase of tools in the Spanish Group.

The main additions in 2017 related to an extrusion press and six Pilger laminators (three of which are intended for the US subsidiary Salem Inc, one for the Austrian company Schoeller Bleckmann GmbH and two for the Indian company Tubacex Prakash Pvt Ltd). These investments will facilitate the increase in capacity at the three subsidiaries within the framework of the Strategic Plan to increase low-value-added product capacity in India, increase the installed capacity for umbilicals and instrumentation products in Austria and strengthen the Group's positioning in the US.

The disposals in 2018 and 2017 related mainly to idle items of fully depreciated property, plant and equipment.

At 31 December 2018 and 2017, the Group had the following investments in property, plant and equipment located abroad (in thousands of euros):

2018

	Gross carrying amount	Accumulated depreciation	Accumulated valuation adjustments
Land and buildings	64,047	(25,872)	-
Plant and machinery	273,325	(181,649)	-
Other items of property, plant and equipment	8,457	(7,495)	-
Property, plant and equipment in the course of construction	9,247	-	-
Total	354,409	(215,016)	**-**

2017

	Gross carrying amount	Accumulated depreciation	Accumulated valuation adjustments
Land and buildings	64,047	(25,872)	-
Plant and machinery	273,325	(181,649)	-
Other items of property, plant and equipment	8,457	(7,495)	-
Property, plant and equipment in the course of construction	9,247	-	-
Total	**354,409**	**(215,016)**	**-**

At the end of 2018 and 2017 the Group had fully depreciated items of property, plant and equipment still in use, the detail being as follows (in thousands of euros):

2018

	Gross carrying amount
Buildings	55,660
Plant and machinery	264,249
Other items of property, plant and equipment	25,259
Total	**345,268**

2017

	Gross carrying amount
Buildings	55,660
Plant and machinery	257,741
Other items of property, plant and equipment	28,151
Total	**341,452**

Works of art

These are works of art owned by the Parent. The TUBACEX Group commissions periodically an independent expert appraisal of these works of art and the market valuation arising therefrom is in line with the carrying amount recognised at 31 December 2018 and 2017 (the most recent appraisal commissioned by the Parent was in 2018). Works of art are not depreciated since it is considered that they do not suffer decline in value from the passage of time. Pursuant to the applicable regulations, this characteristic applies solely to property, plant and equipment.

Of the Group's property plant and equipment (see Notes 3.1, 7 and 8), at the end of 2018 and 2017 the following items were not being used directly in operations (in thousands of euros):

	2018			2017		
	Cost	Valuation adjustments	Total	Cost	Valuation adjustments	Total
Works of art	4,387	(332)	4,055	5,550	(736)	4,814

In 2018 the Group sold works of art for EUR 1,740 thousand, the carrying amount of which was EUR 758 thousand. The gain on the transaction, amounting to EUR 982 thousand, was recognised under other "Other Operating Income" in the consolidated statement of profit or loss for 2018 (see Note 24). There were no disposals in 2017.

Other disclosures

As indicated in Note 9, at the end of 2018 and 2017 the Group held various items of property, plant and equipment under finance leases.

As a result of the impairment test conducted by the Group, the directors consider that there was no indication of impairment of the Group's other assets at 31 December 2018 or 2017.

At 31 December 2018, the amount payable by the Group to non-current asset suppliers was EUR 9,209 thousand (31 December 2017: EUR 5,511 thousand), and this amount was recognised under "Trade and Other Payables" in the accompanying consolidated statement of financial position (see Note 20).

At 2018 year-end the Group had firm property, plant and equipment purchase commitments amounting to approximately EUR 5,183 thousand (2017 year-end: EUR 2,739 thousand).

At 31 December 2018and 2017, the Group had not pledged any items of property, plant and equipment as security for mortgage loans (see Note 18).

In December 2015, the Tubacex Group was granted a loan of EUR 65 million by the European Investment Bank to finance research projects in the period from 2015 to 2019 as part of the European Commission's Horizon 2020 framework programme. The loan was earmarked for financing a portion of the investments amounting to EUR 134 million in property, plant and equipment and intangible assets at the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación S.A.U. At 31 December 2017, the Group had drawn down EUR 65 million against this loan. These companies act as guarantors of this loan (see Note 18).

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2018 and 2017 these risks were adequately insured.

The Group did not hold any items of property, plant and equipment at fair value at 31 December 2018.

9. Leases

Finance leases

At 31 December 2018, the Group, as the lessee under finance leases, had recognised leased assets with a carrying amount of EUR 1,355 thousand (31 December 2017: EUR 1,449 thousand) under "Property, Plant and Equipment - Plant and Other Items of Property, Plant and Equipment". The agreement entered into in 2013 with the bank Caja Rural de Navarra for the acquisition of the main machine for the OCTG business line (see Note 8) gave rise to the recognition of these assets under finance lease at the end of 2018 and 2017.

Also, on 14 October 2013, the Parent entered into an agreement with Suelo Industrial Marina Medio Cudeyo, 2006 S.L. for the construction of the industrial building where the Group company Tubacex Services, S.L. carries on its production activity and for the lease with a purchase option on the industrial building and the land on which it is constructed. This lease has a minimum term of 15 years from the date of delivery of the industrial building to the lessee, which can be renewed for three periods of three years each, unless the lessee decides otherwise. The annual rent stipulated in the lease amounts to EUR 187,920. The purchase option provided for in the lease was exercised (see Note 19).

At 31 December 2018 and 2017, the Group had arranged with the lessor for the following minimum lease payments (including any purchase options), based on the lease currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum finance lease payments	2018	2017
Within 1 year	1,459	155
Between 1 and 5 years	6,194	-
Total	**7,653**	**155**

Operating leases

The main leases giving rise to the minimum payments for the Group relate to the leases of industrial buildings, warehouses or offices where certain Group companies carry on their activities, and full-service leases of vehicles.

At the end of 2018 and 2017 the Group had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum operating lease payments	2018	2017
Within 1 year	421	299
Between 1 and 5 years	629	862
After 5 years	-	1,315
Total	**1,050**	**2,476**

The detail of the operating lease payments recognised as an expense in 2018 and 2017 is as follows (in thousands of euros):

	2018	2017
Minimum lease payments	471	299
Total	**471**	**299**

10. Investments in companies accounted for using the equity method

The detail of the investments accounted for using the equity method at the end of 2018 and 2017 and of the changes therein in 2017 and 2016 is as follows:

2018

	Thousands of euros				
	Beginning balance	Share of results of companies accounted for using the equity method (1)	Addition	Dividends	Ending balance
Schoeller-Bleckmann Edelstahlorhr Deutschland, GmbH (Sberd)	207	(113)	-	-	94
Schoeller-Bleckmann Tube France (SBTF)	139	1	-	-	140
Fundacion EIC Energy Advanced Engineering	-	-	6	-	6
Total	**346**	**(112)**	**6**	**-**	**240**

(1) Although the TUBACEX Group exercises control over the above-mentioned companies, they were accounted for using the equity method due to their scant materiality in relation to the fair presentation of the TUBACEX Group.

2017

	Thousands of euros				
	Beginning balance	Share of results of companies accounted for using the equity method (1)	Liquidation	Dividends	Ending balance
Schoeller-Bleckmann Edelstahlorhr Deutschland, GmbH (Sberd)	501	5	-	(299)	207
Schoeller-Bleckmann Tube France (SBTF)	136	3	-	-	139
Total	**637**	**8**	-	**(299)**	**346**

(1) Although the TUBACEX Group exercises control over the above-mentioned companies, they were accounted for using the equity method due to their scant materiality in relation to the fair presentation of the TUBACEX Group.

11. Financial assets

The detail of “Financial Assets” in the consolidated statements of financial position as at 31 December 2018 and 2017 is as follows:

2018:

	Thousands of euros			
	31/12/18			
	Fair value through profit or loss (*)	Fair value through other comprehensive income (**)	At amortised cost (***)	Total
Equity instruments	4,167	-	-	4,167
Other financial assets	-	829	2,057	2,886
Long-term / non-current	**4,167**	**829**	**2,057**	**7,053**
Other financial assets	-	17,794	-	17,794
Short-term / current	-	**17,794**	**-**	**17,794**
Total	**4,167**	**18,625**	**2,056**	**24,847**

2017

	Thousands of euros			
	31/12/17			
	Other financial assets at FV through P/L	Available-for-sale financial assets (*)	Loans and receivables	Total
Equity instruments	4,153	-	-	4,153
Other financial assets	-	829	1,656	2,485
Long-term / non-current	**4,153**	**829**	**1,656**	**6,638**
Other financial assets	**-**	32,069	15,604	47,673
Short-term / current	**-**	**32,069**	**15,604**	**47,673**
Total	**4,153**	**32,898**	**17,260**	**54,311**

As a result of the business combination performed in Italy in 2015, the Tubacex Group acquired an ownership interest through IBF SpA in three unlisted companies, which were valued for the purchase price allocation process at EUR 8,274 thousand.

At the end of 2018 and 2017 the main balances of the two companies in which IBF SpA retained ownership interests were as follows:

Company name	%	Carrying amount 2017	Carrying amount 2018	Share capital	Profit (Loss)	Shareholders' equity
C.F.F. Srl (*)	26%	400	400	47	(407)	141
COPROSIDER Srl (*)	25%	3,335	3,335	100	(134)	1,452
Total		**3,735**	**3,735**			

(*) Figures from the financial statements as at 31 December 2017.

The directors of the Tubacex Group recognised an impairment loss on the ownership interest in C.F.F. Srl of EUR 1.6 million with a charge to “Finance Costs” in the accompanying statement of profit or loss based on the poor situation of the Company’s business and the failure to meet the projections made when the asset was recognised.

Also, “Loans to Related Companies” included a loan of EUR 670 thousand granted to Coprosider Srl, a loan of EUR 83 thousand granted to the non-controlling shareholder of Tubacex Upstream Technologies and a loan of EUR 909 thousand granted to the non-controlling shareholder of Tubacex Awaji Thailand (Awaji Materia).

The financial assets classified as non-current available-for-sale investments relate to financial investments in medium- and long-term fixed-income investment funds. The carrying amount of the aforementioned investment funds is their fair value.

The Parent had invested a portion of the cash surplus in investment funds and at 31 December 2018 EUR 13,988 thousand (31 December 2017: EUR 29,429 thousand) were recognised under “Current Financial Assets”, which generated net finance income due to changes in fair value of EUR 1,124 thousand (31 December 2017: EUR 1,103 thousand), which was recognised under "Finance Income" in the accompanying consolidated statement of profit or loss for the year ended 31 December 2018.

The detail of the net gains and losses on financial assets is as follows:

	Thousands of euros							
	2018				2017			
	At fair value through other comprehensive income (*)	Derivatives (**)	At amortised cost (***)	Total	Available-for-sale financial assets	Held-for-trading financial assets (derivatives)	Loans and receivables	Total
Finance income applying the amortised cost method	-	-	-	-	-	-	-	-
Change in fair value	1,124	314	-	1.438	1,103	1,082	-	2,185
Net gains/(losses) recognised in profit or loss	**1,124**	**314**	**-**	**1.438**	**1,103**	**1,082**	-	**2,185**

(*) This heading includes mainly the item called “Available-for-Sale Financial Assets” in 2017.

(**) This heading includes mainly the item called “Held-for-Trading Financial Assets” in 2017.

(**) This heading includes mainly the items called “Loans and Receivables” in 2017.

12. Derivative financial instruments

The detail of the derivative financial instruments at 31 December 2018 and 2017 is as follows:

2018

			Thousands of euros			
	Notional amount		Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Current	Non-current	Current
Held-for-trading derivatives						
Forward sales of USD	8,298	USD	-	12	-	(186)
Forward sales of GBP	2,073	GBP	-	14	-	(9)
Forward purchases of USD	43,763	USD	-	846	-	(442)
			-	**872**	**-**	**(637)**
			-	-	-	-
Hedging derivatives			-	-	-	-
Cash flow hedges			-	-	-	-
Interest rate swaps	48,869	Euros	-	-	(261)	(256)
Forward sales of USD	17,250	USD	-	2	(27)	(22)
Forward purchases of USD	42,150	USD	265	474	(420)	(469)
Forward sales of GBP	689	GBP	-	3	-	-
Forward purchase / sales of raw materials		Euros	-	494	-	(205)
			265	**973**	**(708)**	**(953)**
			265	**1,845**	**(708)**	**(1,590)**

2017

			Thousands of euros			
	Notional amount		Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Current	Non-current	Current
Held-for-trading derivatives						
Forward sales of USD	4,800	USD	-	120	-	-
Forward sales of GBP	2,022	GBP	-	2	-	(38)
Forward purchases of USD	35,902	USD	-	4	-	(1,588)
			-	**126**	**-**	**(1,626)**
Hedging derivatives						
Cash flow hedges						
Interest rate swaps	76,128	Euros	-	-	(579)	(351)
Forward sales of USD	8,715	USD	-	144	-	-
Forward sales of GBP	979	GBP	-	4	-	-
Forward purchases of USD	88,876	USD	-	-	(1,365)	(3,115)
			-	**148**	**(1,944)**	**(3,466)**
			-	**274**	**(1,944)**	**(5,092)**

These financial instruments are classified in accordance with the value measurement hierarchy established in IFRS 9.

12.1 Forward foreign currency purchase and sale contracts

As indicated in Note 2.3, the Group's functional currency is the euro. To manage foreign currency risk, mainly in relation to the US dollar, the Group has arranged various forward foreign currency purchase and sale contracts for its import and export transactions, respectively.

At 31 December 2018, the Group had forward foreign currency sale contracts amounting to EUR 9,361 thousand (2017: EUR 6,354 thousand) that did not qualify for hedge accounting. The notional amount of the foreign currency held for trading was USD 8,298 thousand (2017: USD 4,800 thousand) and GBP 2,073 thousand (2017: GBP 2,022 thousand). In all cases, these derivatives were arranged as hedges of foreign currency sales.

The detail at 31 December 2018 and 2017 of the notional amounts of forward foreign currency sale contracts, by residual maturity and currency, is as follows:

	Thousands of euros			
	2018		2017	
	US dollars	Pounds sterling	US dollars	Pounds sterling
Within 1 year	7,042	2,319	4,106	2,248

At 31 December 2018, the speculative forward foreign currency sale contracts gave rise to unrealised losses of EUR 195 thousand and unrealised gains of EUR 26 thousand (31 December 2017: unrealised losses of EUR 30 thousand and unrealised gains of EUR 122 thousand).

At 31 December 2018, these contracts gave rise to unrealised gains of EUR 5 thousand (31 December 2017: unrealised gains of EUR 148 thousand). Since these hedges were accounted for as cash flow hedges and the forecast hedged sales had not yet been recognised in the consolidated statement of financial position at the reporting date, all the changes in value of these derivatives were recognised in equity.

Also, at 31 December 2018, the Group had entered into speculative forward foreign currency purchase contracts with a notional amount of EUR 37,610 thousand (2017: EUR 31,358 thousand). At 31 December 2018, the value of the foreign currency held for speculative purposes was USD 42,763 thousand (31 December 2017: USD 35,902 thousand). In all cases, these derivatives were arranged as hedges of foreign currency purchases.

The detail at 31 December 2018 and 2017 of the notional amounts of forward foreign currency purchase contracts, by residual maturity and currency, is as follows:

	Thousands of euros	
	US dollars	
	2018	2017
Within 1 year	37,610	31,358

At 31 December 2018, the speculative forward foreign currency purchase contracts gave rise to unrealised gains of EUR 846 thousand and unrealised losses of EUR 442 thousand (31 December 2017: unrealised gains of EUR 4 thousand and unrealised losses of EUR 1,588 thousand).

The fair values of these forward foreign currency purchase and sale contracts were estimated by discounting the cash flows on the basis of forward exchange rates available in public domain sources.

12.2 Commodity futures

To hedge the risks of volatility in the prices of the nickel used in its production process, the Group arranges futures contracts on the price of this commodity.

At 31 December 2018 the Gruop has agreed to buy-sell several nickel futures that have not expired at the year-end. The effect of such futures at 31 December 2018 is as follows

- An asset derivative of EUR 494 thousand recognised under "Derivative Financial Instruments", the related deferred tax liability of EUR 118 thousand recognised under "Deferred Tax Liabilities" and its positive impact on equity of EUR 375 thousand recognised under "Hedges – Valuation Adjustments".
- A liability derivative of EUR 205 thousand recognised under "Derivative Financial Instruments, the related deferred tax asset of EUR 49 thousand recognised under "Deferred Tax Assets" and its negative impact on equity of EUR 156 thousand recognised under "Hedges – Valuation Adjustments".

At 31 December 2018 and 2017, the Group did not have any outstanding nickel futures contracts.

The fair values of these nickel swaps were estimated by discounting cash flows, taking into account the difference between the market prices of this commodity available in public domain information sources at 31 December and the corresponding guaranteed fixed price in each contract. At 31 December 2018 and 2017, the Group did not have any commodity futures contracts qualifying as hedges.

12.3 Interest rate swaps

The Group uses fixed-for-floating interest rate swaps to manage its exposure to changes in interest rates. The detail of the swaps outstanding at 31 December 2018 and 2017 is as follows:

2018

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
7,500	16.07.2017	16.07.2021	0,670%
729	20.11.2014	20.05.2019	0,720%
390	30.09.2014	30.06.2019	0,355%
250	20.06.2014	19.06.2019	0,690%
8,750	17.07.2014	17.07.2019	0,520%
4,000	12.11.2014	16.11.2020	0,360%
7,500	01.11.2017	03.05.2021	0,45%
7,500	22.05.2017	20.05.2021	0,74%
6,250	31.03.2017	31.03.2021	0,755%
6,000	12.08.2015	12.11.2020	0,243%

2017

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
10,000	16/07/17	16/07/21	0.670%
2,479	20/11/14	20/05/19	0.720%
1,149	30/09/14	30/06/19	0.355%
750	20/06/14	19/06/19	0.690%
17,500	17/07/14	17/07/19	0.520%
6,000	12/11/14	16/11/20	0.360%
10,500	01/11/17	03/05/21	0.45%
10,000	22/05/17	20/05/21	0.74%
8,750	31/03/17	31/03/21	0.755%
9,000	12/08/15	12/11/20	0.243%

12.4 Cash flow hedges

The amount of cash flow hedges reclassified in full from equity to profit or loss and the detail of the related line items in the consolidated statement of profit or loss in which the amounts were recognised are as follows:

	Thousands of euros	
	Gains/(Losses)	
	2018	2017
Interest rate swaps:		
- Finance income/costs	(532)	(533)
Foreign currency hedges:		
- Exchange differences	(4,331)	(101)
	(4,863)	**(634)**

The finance costs arising from the interest rate swaps that expired in 2018 were recognised under "Finance Costs" in the accompanying consolidated statement of profit or loss.

The Group includes a credit risk adjustment in order to reflect its own risk and that of the counterparty in the fair value of the derivatives using generally accepted valuation models.

Specifically, the adjustment for credit risk was calculated by applying a technique based on simulations of expected total exposure (including both current and potential exposure) adjusted by the probability of default over time and by the loss severity (or potential loss) assigned to the Group and to each of the counterparties. The total expected exposure of the derivatives is obtained by using observable market inputs, such as interest rate, exchange rate and volatility curves based on the market conditions at the measurement date.

13. Inventories

The detail of "Inventories" in the accompanying consolidated statements of financial position as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Goods held for resale	28,818	13,986
Raw materials and other supplies	97,564	106,446
Work in progress and semi-finished goods	89,093	79,185
Finished goods	122,918	75,304
Advances to suppliers	6,207	1,787
Write-downs	(36,143)	(28,132)
	308,457	**248,576**

The Parent has commitments amounting to EUR 39,6 million to buy one of the commodities used in the production process from a supplier with which it has arranged the supply of a monthly volume in tonnes at a fixed price. In this way, the Group aims to ensure its margins in an important order (see Note 14). The arranged volume in tonnes is less than the volume in tonnes required if the aforementioned contract were to be performed normally. Also, the Group's directors have used currency forwards to hedge changes in the US dollar exchange rate, since the purchase cash flows in the aforementioned agreement are in US dollars (see Note 12.1).

The changes in raw materials used, other consumables and goods held for resale in 2018 and 2017 were as follows:

	Thousands of euros	
	2018	2017
Raw materials, other consumables and goods held for resale used / sold-		
Net purchases	324,309	263,123
Changes in inventories	5,950	11,596
	330,259	**274,719**

The changes in the write-downs of inventories in the accompanying consolidated statement of financial position were as follows (in thousands of euros):

2018

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	15,732	1,726	(1,000)	16,458
Work in progress	2,032	1,014	-	3,046
Finished goods	10,368	6,286	(15)	16,639
Inventory write-downs	**28,132**	**9,026**	**(1,015)**	**36,143**

2017

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	14,128	1,913	(309)	15,732
Work in progress	2,040	13	(21)	2,032
Finished goods	8,889	2,205	(726)	10,368
Inventory write-downs	**25,057**	**4,131**	**(1,056)**	**28,132**

Net purchases include those made in the following currencies other than the euro:

Currency	Thousands of euros	
	2018	2017
US dollar	145,477	82,013
Indian rupee	24,470	10,174
Thailand baht	2,241	-

The business activities of the Indian subsidiary gave rise to an increase in purchases in Indian rupees.

14. Trade and other receivables

The detail of "Trade and Other Receivables" in the accompanying consolidated statements of financial position as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Trade receivables for sales and services	82,685	77,800
Trade receivables from Group companies (Note 26)	599	349
Sundry receivables	3,631	3,188
Tax receivables (Note 22)	13,140	15,443
Current tax assets (Note 22)	992	1,274
	101,047	**98,054**
Less- Write-downs	(6,421)	(2,451)
Total trade and other receivables	**94,626**	**95,603**

The changes in the write-downs of trade and other receivables were as follows:

	Thousands of euros	
	2018	2017
Balance at 1 January	2.451	2,900
IFRS 9 impact	2.502	-
Write-down for uncollectibility (Note 24)	1.685	50
Reversals (Note 24)	(190)	(183)
Amounts derecognised	(27)	(316)
Translation differences	-	-
Balance at 31 December	**6.421**	**2,451**

The detail of the tax receivables at 31 December 2018 and 2017 is as follows (see Note 22):

	Thousands of euros	
	2018	2017
Sundry tax receivables:		
VAT refundable	8,864	11,304
Other items	4,276	4,139
	13,140	**15,443**

Construction contracts

In 2017 the Tubacex Group entered into an important agreement which satisfies the accounting requirements for the recognition of revenue by reference to the stage of completion (see Notes 3.17 and 13). The cumulative amount of the revenue recognised and the advances received at 31 December 2017 is recognised under “Trade Receivables for Sales and Services” (see Note 3.23), the detail of which is as follows (in thousands of euros):

	31/12/17
Amounts to be billed for work performed	58,107
Advances received	(40,000)
Advances receivable (*) (Note 11)	(15,604)
Total	**2,503**

(*) Under the construction contract the Group is entitled to collect this amount early, and the directors expect to receive it in the first quarter of 2018.

As indicated in Note 2.4 in 2018 this construction contract was suspended and there was no amount outstanding at 31 December 2018. However, since the contract was on hold in 2018 (see Note 2.8), the aforementioned balances were zero.

15. Cash and cash equivalents

The detail of “Cash and Cash Equivalents” in the consolidated statements of financial position as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Cash on hand and at banks	172,320	107,267
	172,320	**107,267**

“Cash and Cash Equivalents” includes basically the Group's cash, short-term bank deposits and promissory notes with an initial maturity of three months or less. The bank accounts earn interest at market rates. There are no restrictions on the use of the balances.

16. Equity and shareholders’ equity

16.1 Share capital

At 31 December 2018 and 2017, the share capital was represented by 132,978,782 fully subscribed and paid shares of EUR 0.45 par value each.

All the shares carry the same voting and dividend rights, except for treasury shares, the voting rights of which are suspended and the dividend rights of which are attributed proportionally to the other shares. All the Parent's shares are listed on the Spanish Stock Market Interconnection System.

There are no restrictions on the transferability of the shares.

At 31 December 2018 and 2017, the shareholder Jose María Aristrain de la Cruz held an ownership interest of 11% in the Parent's share capital.

16.2 Share premium

This reserve is unrestricted.

16.3 Revaluation reserve

The detail of the revaluation reserve is as follows:

	Thousands of euros	
	2018	2017
Revaluation reserve Álava Regulation 4/1997	3,763	3,763

As permitted by the applicable corporate law, at 31 December 1996 the Group revalued its property, plant and equipment.

Since the period in which the balance of this reserve could be reviewed by the tax authorities has elapsed, the balance of this account may be used, free of tax, to:

- Offset prior years’ losses.

- Increase capital, once the prior years' losses in the consolidated statement of financial position have been offset and the related appropriations have been made to the legal reserve.

- Make appropriations to restricted reserves, using the unused portion of the account balance.

16.4 Other reserves

The detail of "Other Reserves" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Legal reserve	11,968	11,968
Voluntary reserves:		
Other reserves of the Parent	18,696	46,933
Consolidated reserves	145,513	144,766
Total other reserves	**176,177**	**203,667**

Legal reserve-

Under the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

This reserve had reached the legally required minimum at 31 December 2018.

Other reserves of the Parent-

These consist of unrestricted voluntary reserves.

Consolidated reserves-

Of the total reserves of consolidated companies, EUR 36.106 thousand related to restricted reserves at 31 December 2018.

16.5 Treasury shares

At 2018 year-end the consolidated Group companies held the following shares of the Parent:

	No. of shares	Par value (thousands of euros)	Average acquisition price (euros)	Total acquisition cost (thousands of euros)
Treasury shares at 2018 year-end	3,142,975	1,414	2.497	7,850

No changes occurred with respect to 31 December 2017.

In 2016 the Board of Directors approved two incentive plans affecting treasury shares, which were also approved by the shareholders at the Annual General Meeting in May 2017 (see Notes 3.11 and 16.6).

16.6 Other equity instruments

In the context of the long-term incentive plan (see Notes 3.11 and 3.12), on 25 May 2016 the Board of Directors and the General Meeting approved:

- a programme of call options on 500,000 shares for EUR 2 each for the chief executive officer, with an exercise date of 31 March 2018.

- the grant of loans to ten members of the Management Committee for the acquisition of 1,200,000 shares for EUR 2 each and an individual limit of 120,000 shares. The loans will mature on 31 March 2018, the date on which they should be repaid in full either through a monetary payment or by delivery to the Parent of all the shares acquired in 2016. During the term of the loans the Tubacex Group will maintain a right of pledge over the shares and the borrowers will refrain from disposing of, transferring, selling or encumbering the shares acquired under the plan unless prior written consent is given by the Parent (see Note 16-e). Termination of the borrower's employment relationship at the borrower's request shall give rise to the mandatory early repayment of the loan.

These share option plans were instrumented by entering into an agreement with the chief executive officer and a set of agreements with identical characteristics with each of the ten members of the Group's Management Committee.

In order to value this plan, the Group, through an independent expert, used binomial trees (Cox, Ross and Rubinstein model). This process assumes that movements in share prices consist of a large number of small binomial movements. The model is widely used in financial practice to value transactions, with the aim of including the effect of market conditions in the valuation of equity instruments that have been granted. The main assumptions used in the valuation were as follows:

- The five-year interest rate at the valuation date was 0.031%.
- In order to determine the dividends distributed per share, it was assumed that the dividend yield would be maintained in subsequent years.
- The historical volatility of the last 260 trading sessions was used to determine share price volatility.

To determine the total cost of the plan and the cost to be charged in 2018, the Group's directors considered that:

- All the beneficiaries will meet the requirements to receive the shares.
- The vesting period at the beginning would end on 31 March 2018. On the the Board of Directors and the General Meeting celebrated on May 2018, it was approved a new vesting period that will end on 31 March 2019 (see Note 3.12).

In accordance with the above, the total valuation of the two plans at the grant date was estimated to be EUR 930 thousand. As described in Note 3.12, the services provided by the beneficiaries were recognised on an accrual basis by the Group under “Staff Costs”, allocating the fair value of the equity instruments delivered over the term of the plan, which led to a charge of EUR 140 thousand to “Staff Costs” in the accompanying consolidated statement of profit or loss for 2018 (see Note 25) (2017: EUR 511 thousand) and a corresponding credit to “Equity - Other Equity Instruments” in the accompanying consolidated statement of financial position as at 31 December 2018.

16.7 Valuation adjustments

Detail and changes-

The detail of the accounts included in other comprehensive income and of the changes therein in 2018 and 2017 was as follows:

	Thousands of euros			
	Translation differences	Cash flow hedges	Tax effect	Net
Balances at 31 December 2016	**11,653**	**(2,489)**	**674**	**9,838**
Income and expense recognised in the year	(8,000)	(2,441)	683	(9,758)
Transfers to profit or loss	-	(634)	178	(456)
Balances at 31 December 2017	**3,653**	**(5,564)**	**1,535**	**(376)**
Income and expense recognised in the year	1,178	166	(43)	1,301
Transfers to profit or loss	-	4,863	(1,264)	3,599
Balances at 31 December 2018	**4,831**	**(535)**	**228**	**4,524**

The depreciation of the US dollar and the Indian rupee in 2018 gave rise to a decline in value of the net assets denominated in those currencies, which had an impact on equity of EUR 1,178 thousand. The tax effect relates to the cash flow hedges.

Translation differences-

The Group availed itself of the exemption relating to translation differences in IFRS 1, First-time Adoption of International Financial Reporting Standards and, accordingly, the reserves for translation differences included in other comprehensive income are those generated on or after 1 January 2004.

16.8 Dividends and restrictions on the distribution of dividends

The Board of Directors in their meeting celebrated on 19 December 2018, approved an interim dividend of 3,000 thousand euros, which has been totally paid on January 2019..

16.9 Capital management policy

The objectives of the Group's capital management are to safeguard its ability to continue operating as a going concern so that it can continue to provide returns to shareholders, benefit other stakeholders and maintain an optimum capital structure to reduce the cost of capital.

In order to maintain and adjust the capital structure, the Group may vary the amounts of the dividends payable to the shareholders, return capital, issue shares or sell assets to reduce debt.

In line with other groups in the industry, TUBACEX controls its capital structure on the basis of its leverage ratio. This ratio is calculated by dividing net financial debt by equity. Net debt is calculated as the total amount of current and non-current interest-bearing loans and other liabilities, less cash and cash equivalents and current financial assets.

The ratios in 2018 and 2017 were calculated by management as follows:

	Thousands of euros	
	2018	2017
Total financial debt (Note 18)	444,585	408,454
Less - Cash and cash equivalents and current financial assets (Notes 11 and 15)	(190,114)	(154,940)
Net debt	**254,471**	**253,514**
Equity	**300,415**	**281,815**
Debt/equity ratio	**85%**	**90%**

The debt/equity ratio decreased in 2018 (see Notes 7 and 11). The Group’s aim in 2019 is to continue reducing the debt/equity ratio by adjusting working capital and through the positive cash flow projections for the coming year.

17. Provisions

Long-term provisions-

The TUBACEX Group has recognised provisions for the estimated amount of tax debts and probable or certain third-party liability arising from litigation in progress, indemnity payments or obligations of an indeterminate amount and collateral and other similar guarantees, the exact amount of which cannot be determined or whose date of payment is uncertain, since this depends on the fulfilment of certain conditions. EUR 1,050 thousand were recognised in this connection at 31 December 2018 (31 December 2017: EUR 1,650 thousand), which was considered an appropriate amount by the directors following completion in February 2016 of the tax inspection conducted in 2015 (see Note 22.4).

Also recognised under this heading are provisions for possible environmental damage totalling EUR 140 thousand (31 December 2017: EUR 540 thousand) (see Note 29).

Short-term provisions-

The changes in "Short-Term Provisions" in 2018 and 2017 were as follows (in thousands of euros):

	Other employee benefits (Note 3-k)	Other short-term provisions	Total
Balance at 31/12/16	**163**	**4,088**	**4,251**
Charge for the year	-	2,136	2,136
Amounts used for their intended purpose	(163)	(447)	(610)
Reversals	-	(196)	(196)
Balance at 31/12/17	**-**	**5,581**	**5,581**
Charge for the year	-	4,668	4,668
Amounts used for their intended purpose	-	(4,539)	(4,539)
Reversals	-	(161)	(161)
Balance at 31/12/18	**-**	**5,549**	**5,549**

"Other Short-Term Provisions" includes provisions for possible contingencies relating to trading relationships totalling EUR 3,304 thousand at 31 December 2017 (31 December 2017: EUR 4,477 thousand). The amount ultimately payable will depend on the final outcome of discussions with the related customers, and the best available information for quantifying it at 31 December 2018 was used.

Guarantees provided-

The TUBACEX Group has provided bank guarantees amounting to EUR 92,371 thousand (2017: EUR 131,843 thousand) to secure the successful completion of certain transactions performed in the ordinary course of its business. The increase is due to the guarantee required under an important contract that was concluded in 2018 (see Notes 2.4, 13 and 14). The Group's directors consider that the probability of a material liability arising as a result of these guarantees is remote.

18. Non-current and current bank borrowings

The detail of the related headings in the accompanying consolidated statements of financial position as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Non-current-		
Bank loans	138,602	79,717
	138,602	**79,717**
Current-		
Debt instruments and other marketable securities	144,698	95,636
European Investment Bank (Note 2-h)	5,000	65,000
Short-term credit lines and loans	96,608	98,683
Short-term maturities of long-term loans	50,246	44,975
Discounted bills and notes	1,064	885
Import and export financing	7,009	22,524
Interest	1,358	1,034
	305,983	**328,737**

As in 2016 and 2017, the Tubacex Group launched a commercial paper issue programme through its Parent in the Alternative Fixed-Income Market (MARF), which matured in a maximum of twelve months and had a limit of EUR 150 million. EUR 144,698 thousand were payable in this connection at 31 December 2018 (31 December 2017: EUR 95,636 thousand), and this amount bears interest at approximately 0.62% (the amount payable at 31 December 2016 bore interest at approximately 0.37%). This amount was recognised under “Current Financial Liabilities - Debt Instruments and Other Marketable Securities” under “Current Liabilities” in the accompanying consolidated statement of financial position and gave rise to a borrowing cost of EUR 773 thousand (2017: EUR 465 thousand), which was recognised under “Finance Costs” in the accompanying consolidated statement of profit or loss.

In December 2015, the Tubacex Group was granted a loan of EUR 65 million by the European Investment Bank to finance research projects in the period from 2015 to 2019 as part of the European Commission's Horizon 2020 framework programme. The loan was earmarked for financing a portion of the investments amounting to EUR 134 million in property, plant and equipment and intangible assets at the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación S.A.U. At 31 December 2018, the Group had drawn down this loan, which has a maximum maturity of ten years, in full. The Group’s directors consider that the obtainment of this financing is evidence of the market’s confidence in the Tubacex Group's Strategic Plan. This contract is subject to a series of clauses that at 31 December 2018 were fulfilled, so the borrowings are classified as a non-current liability (see Notes 2.8 and 31).

Also, in December 2018 the Group entered into an agreement with Compañía Española de Financiación del Desarrollo (COFIDES) to finance investments totalling EUR 30 million (see Note 8), which had been drawn down in full at 31 December 2018. This contract is subject to certain clauses which the directors considered had been fulfilled at 31 December 2018.

The amount recognised for loans and other interest-bearing liabilities approximates their fair value.

The effective weighted average interest of the loans arranged with banks was approximately Euribor + 1.75% in 2018 (2017: Euribor + 1.66%).

The detail of the remaining maturities of the loans and other interest-bearing liabilities under the related agreements at 31 December and 2018 and 2017, is as follows:

	Thousands of euros	
Maturity	2018	2017
Within 1 year	305,983	328,737
Within 2 years	36,107	39,115
Within 3 years	21,367	25,982
Within 4 years	15,003	11,243
Within 5 years	16,125	2,377
Other	50,000	1,000
	444,585	**408,454**

A portion of the loans and credit facilities of the Austrian subsidiaries were secured by machinery and inventories with carrying amounts of EUR 8,324 thousand, at 31 December 2017. This loan was paid in 2018. Also, the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación, S.A.U. acted as guarantors of this loan from the European Investment Bank.

The Group has been granted foreign trade and other credit facilities with the following limits (in thousands of euros):

	2018		2017	
	Limit	Undrawn amount	Limit	Undrawn amount
Foreign trade credit facilities	21,450	14,441	45,760	23,236
Credit facilities	114,340	16,374	123,800	25,117
Total	**135,790**	**30,815**	**169,560**	**48,353**

The approximate effective weighted average interest on the credit facilities in 2018 was Euribor plus a spread of 1.15% (2017: a spread of 1.21%).

The Group has arranged certain interest rate swaps to exchange the floating rate of several of its credit facilities and loans in order to guarantee a fixed interest rate for the hedged balances (see Note 12).

19. Other non-current financial liabilities

The detail of "Other Non-Current Financial Liabilities" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Non-current-		
Loans repayable at long term	1,327	1,939
Other	6,024	6,192
	7,351	**8,131**

Loans repayable at long term relate to those granted by the Spanish Ministry of Science and Technology to several Group companies, with grace periods of between two and five years in the repayment of the principal, to finance various research and development projects at these Group companies. These loans do not bear interest.

The remaining long-term maturities of these loans under the related agreements at 31 December 2018 and 2017 were as follows:

	Thousands of euros	
Maturity	2018	2017
Within 2 years	405	706
Within 3 years	586	516
Within 4 years	771	669
Within 5 years	320	799
Other	-	308
	2,082	2,998
Less- Effect of discounting	(755)	(1,059)
	1,327	**1,939**

In 2018, as well as the reclassification to short term of the repayments due in 2018, approximately EUR 1,157 thousand were repaid.

At 31 December 2018, “Other” includes a loan granted by the Basque Finance Institute (Instituto Vasco de Finanzas) for EUR 4,573 thousand that are registered in “Other- Non current” for EUR 3,993 thousand and “Other - Current” for EUR 580 thousand, which matures in 2028. The long-term finance lease of the industrial building where the subsidiary Tubacex Services, S.L. carries on its activity amounting to EUR 1,570 thousand (see Note 9).

20. Trade and other payables

The detail of "Trade and Other Payables" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Trade payables:		
Third parties	163,095	130,857
Investments accounted for using the equity method (Note 26)	-	158
	163,095	**131,015**
Other payables-		
Remuneration payable	15,034	9,659
Payable to public authorities (Note 22)	14,687	12,546
Other	11,591	12,153
	41,312	**34,268**
Current tax liabilities (Note 22)	242	-
	204,649	**165,283**

“Trade Payables - Third Parties” includes EUR 61 million advanced by the suppliers through a reverse factoring arrangement, although the Group's account payable was not derecognised, since the maturity date of the third-party billings coincides with the date of payment to the bank of the amount advanced to the third party (31 December 2017: EUR 65 million).

Disclosures on the periods of payment to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 31/2014, of 3 December

Set forth below are the disclosures required by Final Provision Two of Law 31/2014, of 3 December, which were prepared by applying the Spanish Accounting and Audit Institute Resolution of 29 January 2016 to meet the new requirements of the aforementioned Law for the first reporting period ended after its entry into force:

	2018	2017
Average period of payment to suppliers	79	59
Ratio of transactions settled	75	66
Ratio of transactions not yet settled	96	38
Total payments made	418,647	187,855
Total payments outstanding	112,263	54,152

The figures in the preceding table on payments to suppliers by the Parent and the Spanish subsidiaries refer to payments that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to "Trade and Other Payables - Payable to Suppliers" under "Current Liabilities" in the accompanying consolidated statement of financial position.

"Average period of payment to suppliers" means the period of payment or delay in payment of trade payables. This average period of payment to suppliers is calculated as the quotient whose numerator is the sum of the ratio of transactions settled multiplied by the total amount of the payments made and the ratio of transactions not yet settled multiplied by the total amount of outstanding payments, and whose denominator is the result of adding the total amount of the payments made to the total amount of the outstanding payments.

The ratio of transactions settled is calculated as the quotient whose numerator is the result of the sum of the products of multiplying the amounts paid by the number of days of payment (the number of calendar days between the end of the maximum payment period and the date of effective payment of the transaction) and whose denominator is the total amount of the payments made.

Also, the ratio of transactions not yet settled is calculated as the quotient whose numerator is the result of the sum of the products of multiplying the amount of the transactions not yet settled by the number of days in which payment has not been made (the number of calendar days between the end of the maximum payment period and the reporting date) and whose denominator is the total amount of the outstanding payments.

The maximum payment period applicable to the companies with registered office in Spain in 2015 under Law 11/2013, of 26 July, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, is 30 days (except where certain conditions established in the law are met, in which case the maximum payment period can be increased to 60 days).

21. Employee benefit obligations

The changes in the obligations to employees in 2018 and 2017 were as follows (in thousands of euros):

	Long-term defined benefit obligations (Note 3.11)	Other long-term employee benefits (Note 3.11)	Other	**Total**
Balances at 31 December 2016	**6,973**	**4,212**	**508**	**11,693**
Reversals	-	(2,851)	(146)	(2,997)
Expense for the year (Note 25)	1,498	90	270	1,858
Benefits paid	(1,806)	(65)	(20)	(1,891)
Balances at 31 December 2017	**6,665**	**1,386**	**612**	**8,663**
Reversals	(11)	(58)	-	(69)
Expense for the year (Note 25)	322	1,097	291	1,710
Benefits paid	(675)	(864)	(104)	(1,643)
Balances at 31 December 2018	**6,301**	**1,561**	**799**	**8,661**

Long-term defined benefit obligations

This heading includes certain statutory obligations to the employees of the SBER subgroup who joined the company prior to 1 January 2003 and that will arise on the date of retirement or when they leave the company for other reasons, pursuant to current legislation in Austria.

The total liability accruing on this defined benefit plan was calculated by means of accepted actuarial methods, taking into account the mortality assumptions based on the most recent tables in Austria, and amounted to EUR 6,301 thousand for 31 December 2018 (31 December 2017: EUR 6,665 thousand).

The discount rate applied was 1.5% (2017: 1.5%) and the salary increase rate assumption was 3% (2017: 3%).

Other long-term employee benefits

As indicated in Note 3.11, on 25 March 2013 the Parent's Board of Directors approved an incentive plan for the members of the Group's Management Committee who form part of the Group's senior management (see Note 25), which includes the right to receive a multiannual bonus to be calculated as a percentage of the increase in the company’s value between 31 December 2012 and 31 December 2017.

The company's value is defined on the basis of a formula the variables of which are directly linked to the achievement of the objectives of the 2013-2017 Strategic Plan.

According to the directors' best estimates, the liability accrued in this connection at 31 December 2018 amounted to EUR 3 million and was recognised under “Current Liabilities - Other Payables” (31 December 2017: no liability, since the plan had expired).

Also included is the estimate of the accrued amounts payable in the future for certain retirement bonuses to the employees of the SBER subgroup payable upon completing 25, 35 and 40 years of service to the company and consisting of one, two and three months' salary, respectively.

Under certain circumstances, Austrian employment legislation allows employees who meet certain conditions to take partial retirement. Employees who avail themselves of this arrangement work 50% of the working day until the date of retirement and are paid 75% of their salary for a full working day, the additional 25% of the salary being borne by the Austrian social security system.

22. Tax matters

At the General Meeting on 29 May 2013, the shareholders of the Parent approved the inclusion in a consolidated tax group of the Parent and certain subsidiaries located in the Basque Country and subject to Álava income tax legislation for the purpose of filing consolidated income tax returns from 1 January 2014 in accordance with Chapter VI of Title VI of Álava Income Tax Regulation 37/2013, of 13 December.

The consolidated tax group (no. 01/14/A) is made up of Tubacex, S.A., as the Parent, and the Group companies Acería de Álava, S.A.U., Tubacex Tubos Inoxidables, S.A.U., Tubacex Taylor Accesorios, S.A.U., Tubacex Services Solutions, S.A.U., Tubacoat, S.L., Red Distribuidora de Tubos y Accesorios, S.A.U., CFT Servicios Inmobiliarios, S.A.U. and Tubos Mecánicos Norte, S.A.U. In 2016 Tubacex Advanced Solutions, S.L.U., Tubacex Services Solutions Holding, S.L.U. and Tubacex Upstream Technologies, S.A. were included in the scope of consolidation and in tax group number 01/14/A from the year of incorporation, i.e. from the year beginning 1 January 2016.

In future months an amendment to the Álava Income Tax Regulation is expected to be approved which will be effective for tax periods beginning on or after 1 January 2018. At the date of these consolidated financial statements, the most important changes are expected to be:

- The introduction of a quantitative limit on the offset of tax losses of 50% of the taxable profit before offset of tax losses (at present, the only quantitative limit on the offset of tax losses is the taxable profit of taxpayer), although the time limit for offset is extended to 30 years (at present it is 15 years). These limitations will be applicable from 2018, and will apply to the tax loss carryforwards arising in years prior to the entry into force of the reform;

- The reduction of the standard tax rate from 28% to 24%, with a transitional rate of 26% applicable in 2018.

- The reduction of the quantitative limit applicable to tax credits to incentivise the performance of certain activities, excluding tax credits for research and development and technological innovation, from 45% to 35% of the net tax payable, although the time limit for their use is extended from 15 to 30 years. As in the case of the tax losses, this amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;

- The introduction of a quantitative limit of 70% of the net tax payable applicable to the use of tax credits -there was no limit prior to the reform- although the time limit for their use is extended from 15 to 30 years. Should the taxpayer take in the same income tax return tax credits affected by the 35% limit of the net tax payable and tax credits affected by the 70% limit of the net tax payable, the latter tax credits must be taken with the quantitative limit of 70% of the net tax payable after having taken the tax credits affected by the 35% limit. This amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;

- The extension of the time limit to take the double taxation tax credits from 15 to 30 years. As in the case of the other tax credits, the extension of the time limit to take these tax credits is applicable from 2018, and would also apply to double taxation tax credits reported by the taxpayer in the years prior to the entry into force of the reform. The reform has not introduced any quantitative limit on the use of double taxation tax credits and, therefore, the only limit applicable thereto will be the taxpayer’s gross tax payable;

- The introduction of the obligation to make a tax prepayment of 5% of the taxable profit of the last year, the deadline for filing the tax return of which ended on 1 October of the year in progress; and

- The increase of the minimum tax rate from 13% to 17% of taxable profit (transitional rate of 15% in 2018).

The effects arising from these changes have been recognised prospectively in the year in which they are approved, 2018. Companies not included in the consolidated tax Group are taxed individually according to the tax rates for each country

22.1 Current receivables from and payables to public authorities

The detail of the current receivables from and payables to public authorities is as follows (in thousands of euros):

	Thousands of euros	
	2018	2017
VAT refundable (Note 14)	8,664	11,304
Other receivables (Note 14)	4,476	4,139
Current tax assets	992	1,274
Total receivables from public authorities	**14,132**	**16,717**
VAT payable	7,241	6,673
Accrued social security taxes payable	2,954	2,887
Personal income tax withholdings payable	2,044	2,000
Other payables	2,448	896
Income tax payable	242	-
Total payables to public authorities	**14,929**	**12,456**

22.2 Reconciliation of the accounting loss to the tax loss

The consolidated income tax expense recognised in 2018 and 2017 was as follows:

	Thousands of euros	
	2018	2017
Current tax	5,832	(13,671)
Deferred taxes-		
Origination and reversal of temporary differences	(3,371)	(1,304)
	2,461	**(14,975)**

The reconciliation of the consolidated loss before tax to the income tax benefit is as follows:

	Thousands of euros	
	2018	2017
Consolidated loss before tax	19,895	(39,083)
Cumulative income tax expense at the tax rate of the Parent (26%)	5,095	(10,943)
Permanent differences and consolidation adjustments	724	(2,776)
Difference due to tax rates of subsidiaries		263
Current year tax credits and tax relief	(2,176)	(1,304)
Adjustment of prior years' taxes	(1,182)	(215)
Total consolidated tax expense (benefit) recognised	**2,461**	**(14,975)**

The adjustment of prior years' taxes relates to the recognition of tax credits from 2017 in the Álava consolidated tax group.

The nature of the tax credits recognised in 2018 is as follows:

	Thousands of euros	
	2018	2017
Investments in new non-current assets and research and development	2,176	1,304
Other		-
	2,176	**1,304**

22.3 Deferred tax assets and liabilities

The detail at 31 December 2018 and 2017 of the deferred tax assets and liabilities is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Due to provisions and other items	4,403	3,327	-	-
Due to other items	11,804	4,127	(5,606)	(7,310)
Tax loss carryforwards	25,042	32,882	-	-
Unused tax credits and tax relief	24,888	28,669	-	-
Revaluation of assets (Note 2-f)	-	-	(8,771)	(9,338)
	66,137	69,005	(14,377)	(16,648)
Derivative financial instruments	228	1,515	-	(41)
	66,365	**70,520**	**(14,377)**	**(16,689)**

In recognising deferred tax assets the Group bears in mind the following:

- The Group considers it more than likely that sufficient profits will be made in the future to enable it to offset the tax loss carryforwards recognised and, in this connection, the plan drawn up by the Group forecasts an increase in productivity, in sales volumes and, accordingly, in the profitability of the Group's core business. The Group will go ahead with the strategic investments envisaged in its 2018-2022 Strategic Plan (see Note 2.6), with the consolidation of new high-value-added products in the oil, gas, electricity production and nuclear energy industries, which ensure a highly robust competitive position, now that the international crisis has been overcome.

- The business plan used by the Group to make the estimates that justify and support the recoverability of its deferred tax assets is in line with the market scenario and the specific features of the business. The outlook, by tax business unit, would be as follows:

  - In turn, there is no time limit for the recovery of the tax assets generated in Austria (31 December 2018: EUR 17.9 million), the recovery of which is linked to compliance with the Industrial Plan explained in Note 7.

  - The tax assets generated in Italy (31 December 2018: EUR 7 million) are expected to be recovered in a short time horizon, based on the company’s history of obtaining taxable profit and the Group’s outlook for this component.

- Based on the foregoing, Group management considers that the recognition of these tax assets is justified and that they will be used in a period not exceeding ten years or, in any case, within the statutory time periods. The Group's directors consider this criterion to be appropriate. Also, the entry into force of new developments in the territorial tax legislation described above is not expected to have an impact on the recoverability of the deferred tax assets of the Álava consolidated tax group.

The detail, by type, of the changes in deferred tax assets and liabilities recognised against the income tax benefit/expense in the consolidated statement of profit or loss, is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Due to provisions and other items	1.076	(355)	-	-
Due to other items	7.677	875	1,704	(1,829)
Tax loss carryforwards	(7.840)	12,202	-	-
Unused tax credits and tax relief	(3.781)	2,196	-	-
Revaluation of assets included in the scope of consolidation (Note 2.6)	-	-	567	1,750
Total	**(2.868)**	**14,464**	**2,271**	**(79)**

The most significant decrease arose due to the losses incurred in the Álava consolidated tax group in previous years. Also, there have been registered the regularization of the reduction of the standard tax rate because of the amendment to the Álava Income Tax Regulation approved on March 2018. Also, the deferred tax liabilities relating to obligations to employees decreased mainly as a result of exchange rate fluctuations amounting to EUR 126 thousand (2017: an increase of EUR 483 thousand).

The decrease in "Due to Obligations to Employees" was a result of the payments made in relation to the liabilities disclosed in Note 21.

Also, at 31 December 2015, the deferred tax liabilities resulted from the revaluation of the assets arising from the purchase price allocation of IBF, S.p.A., with a corresponding deferred tax liability of EUR 13,816 thousand and a reversal of EUR 568 thousand in 2018 based on the depreciation and amortisation charge for the year (2017: EUR 626 thousand). Also, the impairment losses recognised on intangible assets due to the agreement with the strategic customer (see Note 7) and the impairment of the financial asset at C.F.F. Srl (see Note 11) gave rise to the reversal of an additional amount of the deferred tax liabilities totalling EUR 672 thousand at 31 December 2017.

Tax loss carryforwards

The detail of the tax loss carryforwards recognised in the accompanying consolidated statements of financial position as at 31 December 2018 and 2017 is as follows:

Year incurred	2018	2017
2009	-	402
2010	1,028	4,385
2011	6,398	4,482
2012	673	535
2013	841	950
2015	1,841	3,749
2016	5,350	5,838
2017	5,611	12,541
2018	3,300	
	25,042	**32,882**

Of the total tax loss carryforwards, EUR 7 million were incurred at Álava companies prior to forming part of the consolidated tax group the last year for offset of which is 2028, and EUR 6 million were incurred in the consolidated tax group in 2017 the last year for offset of which is 2031. Also, the Austrian subsidiary has recognised EUR 17 million of tax loss carryforwards the recovery of which is not subject to any time limit under the tax legislation of that country. Lastly, the Italian subsidiary has incurred EUR 7 million of tax loss carryforwards in the last two years.

Unused tax credits and tax relief

The detail of the tax credits and tax relief recognised in the accompanying consolidated statements of financial position as at 31 December 2018 and 2017, all of which were generated at the consolidated tax group in Álava, is as follows:

Year generated	2018	2017	Last year for deduction
2001	12	12	2028
2002	11	11	2028
2003	5	1,143	2028
2004	280	1,039	2028
2005	1,059	1,258	2028
2006	650	650	2028
2007	710	710	2028
2008	940	940	2028
2009	2,028	2,028	2028
2010	2,633	2,632	2028
2011	4,002	4,002	2028
2012	2,853	2,997	2028
2013	4,570	4,701	2028
2014	153	1,032	2029
2015	87	2,697	2030
2016	672	1,513	2031
2017	2,131	1,304	2032
	2,092	-	
	24,888	**28,669**	

The tax credits generated prior to 2013 (EUR 20,271 thousand) must be recovered on an individual basis by each company that generated them prior to joining the consolidated tax group. Of these tax credits, EUR 5,809 thousand relate to double taxation tax credits and EUR 8,289 thousand to tax credits with a limit.

The total amount of current and deferred income tax, relating to items directly charged or credited to other comprehensive income in 2018 and 2017, is as follows:

	Thousands of euros	
	2018	2017
Cash flow hedges (Note 12)	(1,307)	861

22.4 Years open for review and tax audits

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2018 year-end part of the Group had 2013 and subsequent years open for review by the tax authorities for income tax, VAT and direct personal income tax withholdings from residents, and the last four years open for all other taxes applicable to it. All the tax credits and tax losses arising in prior years may be reviewed with a ten year statute-of-limitations when they are used in any of the years open for review. However, the taxes for the years of the companies that were subject to the tax audit that was completed in February 2016 are not open for review. The following taxes were subject to the audit:

- Income tax, VAT, and direct personal income tax withholdings from residents for 2010 to 2013.

- Non-statute-barred taxable events relating to non-resident income tax withholdings and transfer tax.

The Group's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying consolidated financial statements.

Pursuant to the income tax legislation in Álava where the Parent is domiciled, if under the applicable rules for calculating the tax base the latter is negative, its amount may be offset without any time limit in Álava and Vizcaya (18 years initially and successively after the year in which the loss was incurred at companies with registered offices in other parts of Spain except for Guipúzcoa and Navarre), for which the amount may be apportioned in the proportion deemed fit. The tax loss will be offset when the income tax return is filed, without prejudice to the tax authorities' inspection powers. However, with effect from 1 January 2014, on the approval of Álava Income Tax Regulation 37/2013, of 13 December, a 15-year time limit was established for offsetting tax losses (those generated both prior and subsequent to the date of entry into force of the Regulation). The Group's directors consider that this tax legislation does not have an impact on the recoverability of the tax loss and tax credit carryforwards that it had recognised at 31 December 2018, since it estimates their recovery within ten years, in accordance with current accounting legislation.

The legislation for the settlement of 2016 income tax applicable to Tubacex, S.A., Acería de Álava, S.A.U., Comercial de Tubos y Accesorios Especiales, S.A.U., Tubacex Taylor Accesorios, S.A.U., Tubacex Tubos Inoxidables, S.A.U., Tubos Mecánicos Norte, S.A.U. Tubacex Advance Solutions S.L.U., Tubacex Services Solutions Holding S.L.U. and Tubacex Upstream S.A. is Álava Regulation 24/1996, of 5 July, which was in force at 31 December 2017, despite the various appeals filed in this connection, on which a final decision has not yet been issued.

23. Earnings per share

23.1 Basic earnings per share

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to the Parent's shareholders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

	2018	2017
Earnings attributable to the Parent's ordinary shareholders	17,434	(19,710)
Weighted average number of ordinary shares outstanding (Note 16)	129,835,807	129,835,807
Basic earnings per share (euros)	0.1339	(0.1518)

The average number of ordinary shares outstanding was calculated as follows:

Ordinary shares outstanding at 1 January 2018 and 2017	132,978,782
Effect of treasury shares (Note 16)	(3,142,975)
Weighted average number of ordinary shares outstanding at 31 December 2017 and 2016	129,835,807

23.2 Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all the dilutive potential ordinary shares. The Parent does not have any dilutive potential ordinary shares.

24. Other operating income and expenses

The detail of “Other Operating Income” in the accompanying consolidated statements of profit or loss for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Grants related to income	308	25
Transfer of grants to profit or loss (Note 3.1)	165	477
Other income	8,593	6,003
	9,066	**6,505**

In 2018,"Other Income" included, works of art by Tubacex, S.A. (see Note 8), which generated income of EUR 982 thousand, also included EUR 600 thousand for the reversal of a tax contingency.

The detail of “Other Operating Expenses” in the accompanying consolidated statements of profit or loss for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Operating lease expenses	2,226	2,061
Repair and upkeep expenses	22,341	17,923
Independent professional services	13,521	9,776
Transport	19,200	13,613
Insurance premiums	5,781	3,039
Utilities	38,632	32,712
Taxes other than income tax	26,258	19,704
Other expenses	2,162	662
Change in operating allowances (Note 14)	328	(133)
	130,447	**99,357**

25. Staff costs

The detail of “Staff Costs” in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Wages, salaries and similar expenses	94,322	89,204
Contributions to pension plans	1,800	1,376
Social security costs	31,757	30,154
Other employee benefit costs	1,918	3,471
Provisions for employee benefits and long-term incentive plan (Notes 16-f and 21)	- 3,675	(2,761)
	133,472	**121,444**

The average number of Group employees, by professional category, in 2018 and 2017 was as follows:

Professional category	2018	2017
Senior executives	10	10
Line personnel and middle management	286	242
Clerical staff	439	517
Manual workers	1,648	1,545
Total	**2,383**	**2,314**

Also, the distribution of the workforce, by gender and category, at the end of 2018 and 2017 was as follows:

Professional category	2018		2017	
	Men	Women	Men	Women
Senior executives	10	-	10	-
Graduates	128	47	116	50
Line personnel and middle management	172	52	151	35
Clerical staff	295	121	333	115
Manual workers	1,509	119	1,480	117
Total	**2,114**	**339**	**2,090**	**317**

At 31 December 2018, the Parent's Board of Directors comprised 3 women and 9 men (31 December 2017: two women and nine men).

At 31 December 2018, the Group does not have any disabled employees.

26. Related party transactions and balances

Related party transactions

The detail of the transactions with related parties in 2018 and 2017 the effects of which were not eliminated on consolidation (see Note 10) is as follows:

2018

	Revenue	Procurements	Other operating expenses	Financial expenses
Schoeller-Bleckmann Group	-	-	128	-
CFF SRL	15	-	143	-
Coprosider	381	223	23	5
Frontier Solutions	-	-	1,133	-
	396	**223**	**1,427**	**5**

2017

	Revenue	Procurements	Other operating expenses
Schoeller-Bleckmann Group	-	-	917
CFF SRL	16	-	14
Coprosider	936	147	11
Frontier Solutions	-	-	1,207
Prakash Pvt Ltd	504	-	-
	1,456	**147**	**2,149**

Related party balances

The detail of the related party balances in the consolidated statements of financial position as at 31 December 2018 and 2017 is as follows (in thousands of euros):

2018

	Balances receivable		Balances payable
	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
Schoeller-Bleckmann Group	-	13	-
CFF SRL	-	5	(136)
Coprosider	644	86	(128)
Frontier Solutions	84	203	(96)
Awaji Materia	909	-	-
Other	419	292	-
	2,056	**599**	**(360)**

2017

	Balances receivable		Balances payable
	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
Schoeller-Bleckmann Group	-	285	(138)
CFF SRL	-	5	(18)
Coprosider	643	59	(2)
Frontier Solutions	82	-	-
Awaji Materia	910	-	-
Other	21	-	-
	1,656	**349**	**(158)**

27. Remuneration of executives

The remuneration earned by the key executives in the years ended 31 December 2018 and 2017 was as follows:

	Thousands of euros	
	2018	2017
Current employee remuneration, executives	2,511	2,220
Post-employment benefits	143	129
	2,654	**2,349**

Also, as a result of the introduction of a long-term incentive plan for the senior executives approved by the General Meeting on 25 May 2016 (see Notes 3.11, 3.12, 16 and 21), the executives earned EUR 140 thousand in relation to the share option plan. A provision of EUR 3 million was created in connection with the incentive plan (see Notes 3.12. and 21). At 31 December 2018 and 2017, the Group's senior executives did not have any balances relating to advances or loans. "Post-Employment Benefits" relate mainly to contributions to a defined contribution plan at an employee benefit entity (EPSV).

At 31 December 2018, an interest-free loan of USD 50 thousand which matures in two years had been granted to a senior executive.

28. Disclosures relating to the Parent's directors

28.1 Remuneration of and balances with the Parent's directors

In 2018 the members of the Board of Directors earned remuneration amounting to EUR 851 thousand (2017: EUR 853 thousand) in the form of fixed fees and fees for attending the Board meetings.

These amounts do not include in any case the additional remuneration earned by directors who perform representative or executive tasks, which in 2018 amounted to EUR 1.767 thousand (2017: EUR 752 thousand), of which EUR 59 thousand related to post-employment benefits (primarily contributions to a defined contribution plan at an employee benefit entity) (2017: EUR 33 thousand).

Lastly, in 2018, as in 2017, the members of the Board of Directors did not earn any attendance fees and bylaw-stipulated directors' emoluments in relation to directorships of other consolidated Group companies.

At 31 December 2018 and 2017, the directors did not have any balances relating to advances or loans from the Group.

At 31 December 2018 and 2017, the Group did not have any pension or life insurance obligations to the former or current members of the Parent's Board of Directors, and it had not assumed any obligations in the form of guarantees provided on their behalf.

The insurance premium of EUR 28 thousand in 2018 (2017: EUR 22 thousand) relates to the directors' third-party liability insurance policy.

28.2 Transactions performed outside the normal course of business or not on an arm's length basis by the Parent's directors

In 2018 the Parent's directors did not perform any transactions with the Company or the Group companies that were outside the normal course of business or were not on an arm's length basis.

28.3 Ownership interests and positions held in other companies by the Parent's directors and persons related to them

At the end of 2018, none of the members of the Board of Directors of Tubacex, S.A., or individuals related to them, as provided for in the Spanish Limited Liability Companies Law, had entered into relationships with other companies which, due to their activities, were in conflict with their or the Parent's interests, and neither were the Board of Directors or the other directors informed of any situation of conflict of interest in accordance with Article 229 of the aforementioned law. Accordingly, these consolidated financial statements include no disclosures in this connection.

29. Information on the environment

The Group's operations are governed by the laws on environmental protection (“environmental laws”) and workers' safety and health (“occupational safety laws”). The Group considers that such laws are substantially complied with and it also has procedures in place aimed at fostering and ensuring compliance.

In the year ended 31 December 2018, the Group made investments for a net amount of approximately EUR 1,841 thousand (2017: EUR 2,422 thousand) and incurred expenses of EUR 1,218 thousand (2017: EUR 2,091 thousand) in environmental protection, consisting mainly of the removal of acids, repairs and upkeep, as well as advisory and audit services provided by independent professionals.

The Group did not receive any grants related to environmental protection in 2018 or 2017.

At 31 December 2018, except for a provision totalling EUR 544 thousand recognised under "Long-Term Provisions" in the accompanying consolidated statement of financial position (2017: EUR 540 thousand) relating to one of the subsidiaries domiciled in the US to cover the risk of water pollution (see Note 17), the amount of which was appraised by an independent valuer, the Group had not recognised any other provisions for possible environmental risks, since the directors consider that there are no material contingencies relating to possible lawsuits, indemnification or similar circumstances.

30. Fees paid to auditors

In 2018 the fees for financial audit and other services provided by the auditor of the Group’s consolidated financial statements, Deloitte, S.L., or by firms in the Deloitte organisation, and the fees billed by the auditors of the separate financial statements of the consolidated companies, and by companies related to these auditors as a result of a relationship of control, common ownership or common management, were as follows, without regard to when they are billed (in thousands of euros):

	2018	2017
Audit services	482	376
Other attest services	15	38
Total audit and related services	**497**	**414**
Tax advisory services	187	124
Other services	33	-
Total audit and related services	**717**	**538**

Also, the fees billed by other auditors for audit services in 2018 amounted to EUR 189 thousand (2017: EUR 58 thousand).

31. Events after the reporting period

Acquisition of IBF, S.p.A.

On 29 January 2019, Tubacex, S.A. acquired 35% of IBF SpA, of which it was already the majority shareholder as the holder of the remaining 65%. The acquisition was carried out for EUR 11 million and this amount had been paid at the date of authorisation for issue of these consolidated financial statements. The transaction is part of the growth strategy envisaged in the Group's strategic plan. With this acquisition, Tubacex has become the only manufacturer of seamless stainless steel tubes and pipes able to offer a comprehensive range of dimensions and also launched itself as a leading manufacturer in the tube and pipe fittings market.

Acquisition of the Nobu Group

On 19 February 2019, the TUBACEX Group and SENAAT (UAE state-owned company) reached a binding agreement to acquire the NOBU Group, a company specialising in the repair, maintenance and manufacture of stainless steel machined components, with head office in Dubai (UAE) and a presence in Saudi Arabia, Dubai and Norway.

This Group has a workforce of around 200 employees and its revenue in 2018 totalled approximately USD 34 million. The Nobu Group engages in the provision of repair and manufacturing services for high precision tubular components.

The acquisition is scheduled to take place in the coming months, once the conditions precedent foreseen for transactions of this nature have been fulfilled.

With this acquisition Tubacex made headway with its strategy to transform itself into a global provider of tubular solutions, significantly reinforcing its exploration and energy production industry product portfolio.

The transaction will result in the payment of USD 57.3 million, although the price is subject to potential adjustments once the acquisition has been completed.

32. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Tubacex, S.A. and Subsidiaries composing the TUBACEX Group

Consolidated Directors' Report for the year ended 31 December 2018

In 2018 the global economy grew a 3.7%. However, the slowdown that several economies have suffered during the second half of the year is expected to be maintained in the next quarters, so it has been revised downward the growth expected for 2019.

Raw material prices maintained a growing trend between January and September. However, in line with the general uncertainty of the markets, the evolution in the last quarter of 2018 has been very negative. The nickel, which presented a revaluation of 2.3% in September, drops by 12.8% until December, closing the year at 10,725 USD per tonne. All the same, in terms of average prices, its price has been located at 13,190 USD per tonne, 26.1% higher than the average price of 2017.

The other two alloying elements with a significant weight in the Group's procurements for the manufacture of stainless steel are molybdenum and chromium. The molybdenum price closed September 2.4% higher than the closing of 2017, while chromium dropped by 19.4%.

The positive trend that maintained the price of oil in the first three quarters has been turned around in the last months of the year. The price of oil has been volatile since August, due to factors that influence supply such as Iran's oil exports policy and, more recently, fears of moderation in global demand. If in September the barrel of Brent accumulated a revaluation of 23%, during the last quarter has fallen 35% which has caused that it closed the year in negative for the first time since 2015. The barrel of Brent closed 2018 at 53.80 USD, 19.5% below its price in December 2017.

Although, in this context marked by uncertainty, 2018 has not been a year of recovery in the main markets of the group, the results of the year show a significant growth in both results and margins thanks to the strong positioning of TUBACEX and the increase of its market share in higher value-added products.

In the face of future prospects, a significant amount of investment projects will see the green light in 2019 and, although it will take some time to be translated into the demand for the group's products, they anticipate a strong expansion for the years 2020 and 2021. Meanwhile, TUBACEX is immersed in the last stages of awarding several unique, multiannual and high value-added projects for which it is strong positioned. Therefore, regarding to 2019, TUBACEX anticipates an exercise very similar to the one of 2018 in terms of results, but with high levels of bookings that would allow a very high portfolio visibility for the next few years.

1. GROUP BUSINESS PERFORMANCE IN 2018

To provide a detailed analysis of the performance of the main business variables in 2018, the changes in the main headings in the consolidated statement of profit or loss are examined below, together with the most significant events relating to the Group's financial, commercial and industrial activity

1.1 Analysis of the Group's consolidated statement of profit or loss.
1.2 Financial activity.
1.3 Risk management policy
1.4 Commercial activity.
1.5 Industrial activity.
1.6 Strategic Plan.

1.1 Analysis of the Group's statement of profit or loss

For comparison purposes, the main headings of the consolidated statements of profit or loss for 2018, 2017 and 2016 (in millions of euros) are discussed below.

		%		%		%
Revenue	*2018*		*2017*		*2016*	
Other income	*677,32*	*100,00*	*490,36*	*100,00*	*494,03*	*100,00*
Changes in inventories	*12,77*	*1,89*	*10,72*	*2,19*	*17,92*	*3,63*
Total operating amount	*-26,34*	*-3,89*	*20,38*	*4,16*	*9,26*	*1,87*
Procurements and purchases	***663,75***	***98,00***	***521,46***	***106,34***	***521,21***	***105,50***
Staff costs	*-330,26*	*-48,76*	*-274,72*	*-56,02*	*-268,03*	*-54,25*
External and operating expenses	*-133,47*	*-19,71*	*-121,44*	*-24,77*	*-121,54*	*-24,60*
Gains on bargain purchases arising from business combinations	*-130,45*	*-19,26*	*-99,36*	*-20,26*	*-96,69*	*-19,57*
Gross profit from operations	***69,58***	***10,27***	***25,94***	***5,29***	***34,95***	***7,07***
Depreciation and amortisation charge and impairment losses	*-35,13*	*-5,19*	*-54,19*	*-11,07*	*-32,43*	*-6,56*
Net profit from operations	***34,45***	***5,09***	***-28,25***	***-5,78***	***2,52***	***0,51***
Financial loss	***-14,79***	***-2,15***	***-9,04***	***-1,84***	***-7,68***	***-1,56***
Exchange differences	***0,24***	***0,03***	***-1,79***	***-0,36***	***-0,39***	***-0,08***
Profit (Loss) from ordinary activities	***19,90***	***2,94***	***-39,08***	***-7,99***	***-5,55***	***1,12***
Income tax	*-2,46*	*-0,36*	*14,97*	*3,05*	*3,99*	*0,81*
Net profit (loss) for the year	***17,43***	***2,57***	***-24,10***	***-4,94***	***-1,56***	***-0,32***
Profit (loss) attributable to non-controlling interests	*-0,05*	*-0,01*	*4,40*	*0,90*	*2,07*	*0,42*
Profit (loss) attributable to the Parent	***17,39***	***2,57***	***-19,71***	***-4,04***	***0,51***	***0,10***

In terms of trends, following is an analysis of the most noteworthy of the changes in the consolidated statement of profit or loss:

- Sales have grown a 38.1% in 2018 compared with the 2017 figure. This evolution is a consequence of the increase of volumes invoiced thanks to the gradual improvement of the market, as well as to the increase of weight of the products of high technological value consequence of the good positioning of the group in the most premium segment of the market.

- The ratio of the cost of procurements to net sales moved from 56.0% at 2017 year-end to 48.8% due to the policy of continuous improvement and the gradual increase of the offer of Integral solutions.

- The Group's headcount rose from an average of 2,314 in 2017 to 2,383 in 2018, a net increase of 69 people. However, in terms of staff cost on sales, it has been significantly reduced from 24.8% from 2017 to 19.7%.

- "Other Operating Expenses" made up 19.3% of revenue in 2018, compared to 20.3% in 2017.

- Depreciation and amortization charges and impairment losses decreased significantly compared with 2017, as a fundamental consequence of the past years' recognition of an extraordinary accounting adjustment related to the change in business model to be implemented at the Austria subsidiary.

- The group's financial debt has increased by 1 million euros to EUR 254.5 million, an increase intimately linked to the increase in circulating capital up to EUR 29.2 million. It is necessary to emphasize that TUBACEX manufactures on request, given the nature of the products that it offers, tailor-made for specific projects. For this reason, net debt is closely linked to the current capital which is for the most part already sold and with a positive net value of realization.

- The financial result increases with compared to previous year as a result of the formalization of guarantees and the banking structuring of multiannual premium product projects, especially those related to the project of sale of OCTG in Iran.

1.2 Financial activity

The equity attributable to the Parent stood at EUR 274.4 million at the end of 2018, representing 27.6 % of total equity and liabilities (2017: 28.4%). It is important to note that the Group's strategy, geared toward reducing borrowing costs and guaranteeing a solid cash position, has borne fruit, and that it currently enjoys a healthy financial position which enables it to ensure the coverage of its debt maturities for the next three to four years.

The Group's long-term financial debt at 31 December 2018 amounted to EUR 138.6 million, which represents 31.2% of the total debt, compared with 19.5% in 2017. The group's financial strategy is to continue expanding the long-term financial debt base while diversifying its nature including bank financing, public funding, and other debt instruments not Bank.

In 2018 TUBACEX's share price decreased by 25.4% , ending 2018 at EUR 2.50 per share, which represents a market capitalisation of EUR 332.4 million, compared to EUR 445.5 million at 2017 year end.

The share price peaked in May at EUR 3.60 per share, whereas the lowest price was in December, at EUR 2.46 per share.

In 2018 77.2 million shares were traded, with effective trading amounting to EUR 244.8 million. The turnover of treaded shares represents a 58% of all the Company's shares compared to 77% of 2017.

Since June 2015 TUBACEX's shares have been included in the "IBEX SMALL CAP" index, comprising the 30 securities with the highest adjusted free-float capitalisation other than the 35 securities in the "IBEX 35" index and the 20 securities in the "IBEX MEDIUM CAP" index.

1.3 Risk management policy

In 2018 the Group continued and extended to its various subsidiaries its efforts to establish and monitor active risk management policies which, since they are designed to mitigate the Company's exposure to the main risks associated with its activity, continued to be of major relevance in the current complex macroeconomic climate.

In 2018 the Audit and Compliance Committee, with the support and collaboration of the internal corporate audit area, updated the corporate risk map, as well as specific risk maps for projects with a significant economic impact for the Group. With regard to the risks inherent to TUBACEX's activities, the control duties of the Group's governing bodies, which include the Board of Directors, the Audit and Compliance Committee, Corporate Financial Management and the financial and administrative departments of each business unit, as well as the Internal Audit Function and Compliance Unit, are focused on the key risks detailed below. It should be noted that the Board of Directors of TUBACEX, S.A. approved its corporate tax, control and risk management policies in 2016.

The main specific measures used by the Group to control its exposure to the risks associated with its activity are as follows:

- Credit risk.
This is one of the most significant risks for the Company because it affects all revenue. The general policy is to cover as many transactions as possible through credit insurance and to this end the Group has entered into the corresponding annual agreements included under this arrangement. During the year 2018, the policy was extended to host operations of more subsidiaries of the group. Transactions that are not covered by the aforementioned agreements are covered by sufficient letters of credit or collateral guarantees. The Group's general policy is to maintain certain minimum credit risk exposure levels. This policy has given rise to historic, exceptionally low non-payment percentages.

- Foreign currency risk.
The Group is exposed to foreign currency fluctuations. Two effects arising from transactions involving product sales and raw material purchases can be identified. On the one hand, there is a risk in the change in the margin generated by sales from the time of the sale to its collection and a risk in the value of purchases made in US dollars and Indian rupees, mainly purchases of raw materials. On the other, there is a risk in the consolidation of the results of subsidiaries outside the eurozone (due to the use of the year-end exchange rate method) whose financial statements are denominated in US dollars. The greatest risk exposure relates to US dollars although there is also exposure to pounds sterling and Indian rupees. The Group's general policy is not to speculate with open positions; considering balance sheet positions and the risk assumed in the backlog, currency forwards are arranged, always under conservative policies, to mitigate the Group's exposure.

- Interest rate risk.
The majority of the loans and credit facilities arranged by the Group are indexed to Euribor and to a lesser extent to US Libor in various arrangement and settlement periods, exposing the Group's borrowing costs to potential interest rate changes. The Group arranges fixed-rate interest rate hedges with a view to mitigating the aforementioned exposure, mainly in its long-term operations.

- Risk of volatility in raw material prices.
The Group is exposed to changes in the price of the main raw materials used to manufacture stainless steel such as nickel, chromium, molybdenum and stainless steel scrap, the price of which is mainly indexed to the cost of nickel. The most significant effect arises from the price of nickel, which is quoted daily on the London Metal Exchange (LME) and from its impact on the cost of scrap metal, and also from

chromium and molybdenum. The Group's general policy consists of hedging raw material prices relating to steel and tube orders listed at fixed prices in order to protect them from potential fluctuations prior to their collection.

Additionally, during the 2018 year, nickel-price hedging operations have been carried out on finished product stocks. Such hedges apply to possible fluctuations in the market price for those goods indexed to the nickel quotation

- Liquidity risk.

The Group manages liquidity risk prudently by arranging loans with long maturity periods and favourable financial conditions, credit lines with more extensive limits, a portion of which are not drawn down, allowing for the availability of credit in the short term, factoring facilities which help bring forward collections from customers, reverse factoring arrangements which facilitate the management of payments to suppliers, and spreading sources of financing, diversifying among several banks, the public authority that grants loans from the Spanish Centre for Industrial Technological Development (COTO, the European Investment Bank, and the Alternative Fixed Income Market (MARF) (see Notes 18 and 19). The Group also has a good cash position that enables it to have a good liquidity position.

Also worthy of mention is that the information that must be disclosed in the directors' report under Law 31/2014, of 3 December, amending the Consolidated Spanish Limited Liability Companies Law to improve corporate governance, is that the Group's average payment period is 79 days. This payment period relates to payments to suppliers by the Parent and the other Spanish subsidiaries. This period exceeds the maximum payment period set by Law 11/2013, of 26 July, although this is for administrative reasons that will foreseeably be corrected in the short term.

1.4 Sales activity

The Group's consolidated sales amounted to EUR 677.32 million in 2018, with an increase of 38.1% over the previous year. The main reasons for this performance are explained in point 1.1. above.

The Group's sales by geographical area over the last three years were as follows (in millions of euros):

	2018	2017	2016	2018/2017
Europe	316.03	283.30	278.98	11.6%
US	56.97	39.95	32.99	42.6%
Other countries	304.32	167.11	182.06	82.1%
Total sales	677,32	490.36	494.03	38.1%

According to these figures, by market, 47% of sales are made in the European market, 8% in the US and 45% in the rest of the world. In 2017 this distribution was 58%, 8% and 34%, respectively.

Geographically, near half of revenue is generated in Europe. It should be taken into account that in the sales made by the Group to new facilities in the oil, gas and energy industries, the Group client engineering the project or manufacturing the equipment is frequently European even though the final destination of the product may be a different geographical area.

1.5 Manufacturing activity

The investments made in property, plant and equipment in 2018 amounted to approximately EUR 25.9 million, as a whole, compared with the investment of EUR 34.9 million made in 2017.

The majority of these investments are oriented either to the increase of the efficiency in the plants, consequence of the increasing exposure of the group to the premium product, or to the acceleration of the industrial plan that aims at the transfer of the manufacture of the Conventional product from European and American plants to Asian plants.

In the last five years, TUBACEX has invested almost EUR 150 million, mainly in strategic product development, as well as in process improvement. This investment is more significant if it is taking into account the serious crisis suffered by the sector since 2014 and it is a sign of the group's confidence in its strategic positioning as a basis for its future growth and profitability. The investment figure is supported not only by the group's financial strength but by strict selection criteria that have prioritized investments to be made in an environment as weak as the one experienced in recent years.

This time-sustained investment policy is making it possible, on the one hand, to carry out strategic investments (products of higher added value and technology), as well as to continue with the productive improvement in processes and the maintenance and renovation of the Equipment, as one more element for the achievement of the improvement in costs, productivity and quality, contributing to the operational excellence, one of the strategic pillars of the TUBACEX group.

1.6 Strategic plan

The strategic Plan of the TUBACEX group has four fundamental objectives:

1) Reinforce the positioning of TUBACEX as a global supplier of tubular solutions

To do this, it is necessary to grow in the whole value chain and be present in all the necessary phases to offer an integrated solution, from the design of the concept to the installation and maintenance of the solution.

2) Reduce volatility

Through three fundamental ways: diversification of the sectors of activity that use the products, diversification of products towards those with greater added value and reduction of the impact of the raw materials on the profitability of the orders.

3. Grow in a profitable and sustainable way

It is a two-stage objective; In a first phase, with a standardized market and the current sales mix; And a second after achieving complete positioning as a supplier of integral tubular solutions.

4) Achieve a level of excellence above 500 in the EFQM model

TUBACEX is subjected annually to a self-assessment to measure the evolution of His Excellency in the Organization. The results from 2013 show a favorable evolution in all the evaluation criteria with notable results especially in the criteria of "strategy", "leadership" and "products, processes and services".

2. SITUATION OF THE GROUP

In recent years, and particularly since the publication of the 2013-2017 strategic plan, TUBACEX has increased its positioning in the oil and gas and electricity generation industry by committing itself to the development of premium, high value-added products.

Since 2014 we have witnessed a sharp fall in the price of oil, which has caused the greatest crisis in the history of this industry, with three consecutive years of drops in the CapEx of oil and gas companies. In this macroeconomic context, the demand for TUBACEX products fell significantly, adversely affecting the dilution of fixed costs and increasing the pressure on prices in all industries.

Despite the fact that 2018 has not yet been a year of recovery in the markets to which TUBACEX products are headed, the results of the year show a strong growth thanks to the success in the company's strategy of positioning in high added-value products, as well as the maintenance of a strict cost control and continuous improvement policy. These three pillars have allowed the group to circumvent the biggest crisis of the oil sector, after which the commercial, industrial and financial structure of the company has emerged considerably reinforced.

During the year 2018 TUBACEX has continued to improve its positioning in key sectors with the signing of three major strategic alliances in high-growth markets expected. The partnership with Tubes 2000 for the development of nuclear power in Egypt, the alliance with the Indian company Midhani to confront the energy growth in India and the recently announced Joint Venture with Senaat, Abu Dhabi State Investment Group, for the development of Oil & Gas projects in the Middle East. These three alliances not only bring the group closer to the final customer and allow them to diversify their portfolio but are also a sign of TUBACEX's progress in its goal of becoming the first supplier of tubular solutions in high alloys.

In addition, in 2018 TUBACEX has continued betting on innovation, supporting its technological knowledge, as the development of new businesses constitutes a key objective for the TUBACEX group. This effort in new developments has allowed to register several patents that are expected to be able to present to the market between 2019 and 2020 and that will continue to promote their growth as a leading supplier of tubular solutions. In 2018 we anticipate a better situation from the Group's perspective, given the current historic portfolio of high value-added products. Furthermore, the first signs of recovery are starting to appear in the industry, such as the increase in the price of raw materials and the stabilisation of the price of oil, which signal a progressive improvement in the general market situation.

3. SIGNIFICANT EVENTS FOR THE GROUP AFTER THE REPORTING PERIOD

It is worth highlighting two events that occurred after the end of the year:

Acquisition of IBF, S.p.A.

On January 29, 2019 Tubacex, S.A. has acquired 35% of the company IBF SpA, which was already a majority shareholder with the remaining 65%. The acquisition has been made for EUR 11 million that as of the formulation of these annual accounts have already been disbursed. The operation is part of the growth strategy envisaged in the Group's strategic plan. With this acquisition, Tubacex becomes the only manufacturer of seamless stainless steel tubes capable of offering the full range of dimensions, while entering as a manufacturer in the market for pipe fittings with a leading position.

Acquisition of Nobu Group.

After the closing of the 2018 fiscal year, the TUBACEX Group has announced the signing of a strategic alliance with SENAAT, an industrial investment group owned by the Emirate of Abu Dhabi, to support the development of energy projects in the Middle East. This alliance aims to promote a key market with investment projects focused on the development of local manufacturing capacities, with the ambition to become one of the largest manufacturers of premium tubular solutions in the region.

Within the framework of this strategic alliance, TUBACEX and SENAAT have signed an agreement for the acquisition of the NOBU Group, a company specializing in the repair, maintenance and manufacture of stainless steel mechanized components. Based in Dubai, the NOBU group is present in Saudi Arabia, Dubai and Norway and its acquisition, for an amount of 57.3 million USD (figure subject to potential adjustments in the final price), represents a first step in the industrial establishment in regions Key.

4. OUTLOOK AND FUTURE PERFORMANCE OF THE GROUPS BUSINESS LINES

The International Monetary Fund confirmed in its latest World Economic Outlook update that global expansion has weakened. Global growth that rised 3.7% in 2018, is estimated that will be decreased to 3.5% and 3.6% in 2019 and 2020 respectively.

The slowdown of the activity in the last quarters of the year reflects a change of environment, which has become more demanding by the hardening of financial conditions and the erosion of confidence. These factors need to be added to the maturity of the cycle in major economies, such as the United States, and fears that raises uncertainty about the slowdown in China's economy.

After a 2018 turbulent closing with heavy stock-falling that reflected doubts about the strength of global growth in 2019, the new year has begun with greater calm. On the one hand, in financial markets, investor sentiment improved thanks to the US-China negotiations to redirect its trade tensions. And, on the other hand, this sentiment was also supported by the publication of different activity indicators, which, while aiming at a moderation of global growth, suggest that this will be reasonably smooth.

The risks to global prospects in 2019 originate mainly from the results of trade negotiations and the course of financial conditions in the coming months. If countries resolve their differences without raising more trade barriers, and if the market attitude recovers, greater confidence and more favorable financial conditions could reinforce each other and raise growth above the baseline forecast.

As for future prospects, TUBACEX anticipates an exercise of 2019 very similar to that of 2018 in terms of results. However, taking into account the size of projects the group is currently quoting, and whose award is anticipated in the short term, 2019 is likely to be a record year in order picking and close with a portfolio that provides great visibility for The next few years.

5. INNOVATION ACTIVITIES

In accordance with its strategic vision, the TUBACEX Group is making advances in its value proposition, focused on integral solutions with a high technological component, for the most demanding markets.

This approach requires developing products, technologies and capacities that go beyond the conventional tube to move to the concept of solution. This more global concept is linked to the company's ability to offer the complete set of tubular products and services capable of optimizing customer processes and improving the efficiency of their projects. An approach that requires a network of customers, allies, suppliers, technology centers and universities to work collaboratively to meet the challenges of the industry.

During 2018, TUBACEX has continued to intensify its R&D activity by laying the foundations for future projects that will see the light over the next few years. On the other hand, it has materialized different innovative solutions in the tubular field.

TUBACEX is participating in a global acceleration of technological development, facilitated by digitization. Thus, it is assuming the adoption of digital technologies, and the concepts of Industry 4.0 as a strategic need, assuming a growing number of technological innovation projects in its production plants that will allow it to remain a reference to World level.

Both the intensification of collaboration with external agents, as well as technological acceleration and the increasingly strong emergence of digitization, are leading to a change in the approach of the Tubacex innovation process. Open innovation is the right way to innovate, the multidisciplinary approach is increasingly necessary, and collaboration with technological start-ups appears as a new capacity to develop.

6. ENVIRONMENTAL ACTIVITIES

The improvement in environmental results continues to be a priority strategy for TUBACEX. To this end, it systematically implements, in all the Group's business units and in all operational situations, including emergencies, actions designed to minimize the environmental impact associated with its activity (waste, atmosphere, water, noise, energy, land, etc.). At the same time, also in relation to environmental impact, environmental surveillance and monitoring programmes are managed in accordance with current legislation and other specifications laid down by the competent authorities. In this regard, planned environmental expenses amounting to EUR 0.6 million were incurred in 2018.

All business units have an environmental management system according to ISO 14001 certified by an accredited standardization and certification body. In this way, the entire production process, from the receipt of raw materials and the elaboration of stainless steel to the delivery of manufactured pipes, has the endorsement of an organism accredited to its environmental management.

The main lines of action in the year 2018 were as follows:

- TTI Amurrio has received the integrated environmental authorization that includes the OCTG pipe manufacturing line. Previously, the project has been submitted to the process of declaration of environmental impact, in accordance with the provisions of the Royal Legislative Decree 1/2016, of 16 December, approving the consolidated text of the Prevention and Integrated Control Act of the Pollution.
- Sealing of the landfill of the steel plant in Álava. (According to Decree 49/2009, Decree 1481/2001, (law 16/2002 and subsequent amendments).
- Completed the environmental risk assessment of the three plants in accordance with law 26/2007 of environmental Responsibility and its subsequent modification (Law 11 of 2014), the main conclusion is that the risks are low in line with other companies in the sector.
- Application for ACERALAVA as an appraiser of slag in anticipation of future scenarios that necessitate the valuation in situ.

- Noteworthy environmental improvements undertaken are as follows:

    1. Reduction of the energy consumption of Aceralava, derived from the replacement of the lighters, revamping of ODA and replacement of luminaires by type LED.

    2. Reduction of the energy consumption of Amurrio, derived from the replacement of the luminaires by type LED.

    3. Reduction of water pollution, as a result of various actions within the project improvement of the water cycle of TTI Llodio.

    4. Specific projects in progress for the valuation of waste, allowing the development and validation of raw materials recovered from steel by-products such as steel-making powders, metal sludge or slag, to recover metals such as chromium, Nickel and molybdenum.

7. ACQUISITION AND DISPOSAL OF TREASURY SHARES

During the 2018 exercise, no operations have been carried out with the Treasury. The number of shares of the year amounts to 1,942,975 shares, representing a 1.46% of the share capital.

8. PROPOSED ALLOCATION OF RESULTS

The proposed allocation of the results of Tubacex, S.A. that the Board of Directors will submit for approval at the Annual General Meeting is as follows:

	Thousand of Euros
To dividends	6,000
To voluntary reserves	7,669
Total	13,669

9. INFORMATION ON FINANCIAL INSTRUMENTS

Note 12 to the consolidated financial statements provides detailed information on the foreign currency and commodity purchase and sale forward contracts, as well as interest rate swaps, held by the TUBACEX Group at 31 December 2018.

10. OTHER INFORMATION

10.1 Fees paid to auditors

The audit fees for the professional services rendered at the TUBACEX Group in 2018 amounted to EUR 482.0 thousand.

11. ANNUAL CORPORATE GOVERNANCE REPORT

The full text of the Annual Corporate Governance Report is set out below. This text was approved by the Board of Directors of Tubacex, S.A. and is an integral part of the 2018 consolidated directors' report.

12. NON-FINANCIAL INFORMATION STATEMENT

The full text of the non-financial information statement is also set out below. This text was approved by the Board of Directors of Tubacex, S.A. and is an integral part of the 2018 consolidated directors' report.

Introduction

This non-financial information statement is part of TUBACEX management report. It contains information related to environmental and social issues, as well as relating to personnel, human rights and the fight against bribery and corruption as per Directive 2014/95/EU, and compliant with the requirements set forth in Law 11/2018 of December 28, related to non-financial information reporting. This document deals with priority matters in relation to the CSR policy which sets forth basic action principles and corporate commitments for the company in this area.

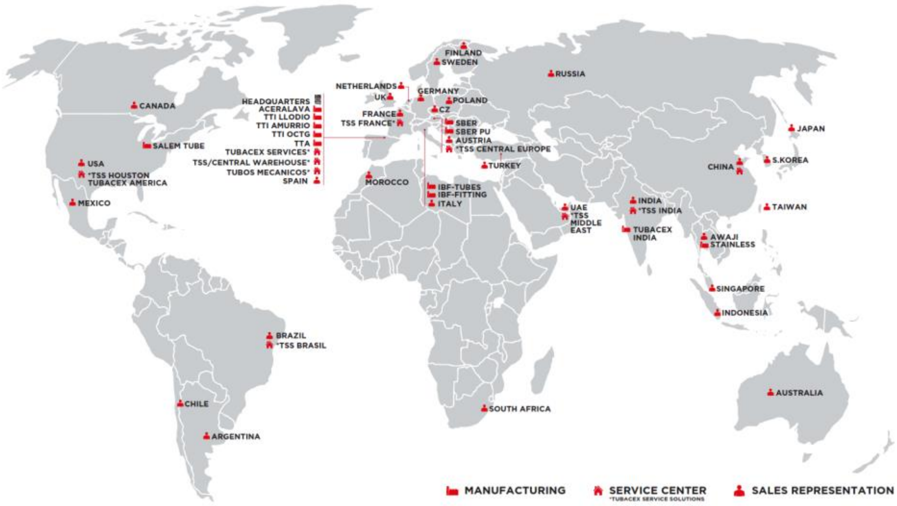
Furthermore, it is worth highlighting that TUBACEX has embraced the United Nations Global Compact (UNGP) objective of ethical management based on the 10 Principles. Since 2001, the company is a signatory of the UNGC, the world's largest voluntary initiative on human rights, labor, environment and anti-corruption. Signing the UNGC, TUBACEX joins the defense of the main pillars to address major challenges in sustainable development, promoting the 10 universal principles and annually reporting progress made in these areas. Once more, the company has issued its annual Progress Report 2018, confirming its commitment to the principles proclaimed by the Global Compact and the progress made in each of them.

1. Business Model

1.1. About us

TUBACEX is an industrial Group founded in 1963 devoted to manufacturing cold-drawn seamless tubular solutions (tubes and fittings) in stainless steel and high-nickel alloys and nickel super alloys, with its head office in Llodio (Alava-Spain). TUBACEX has industrial facilities in Spain, Austria, Italy, the US, India and Thailand, with its own network of stock and service centers (TSS) in Spain, France, Austria, the US, Brazil, India and the UAE, as well as a network of sales offices distributed worldwide.

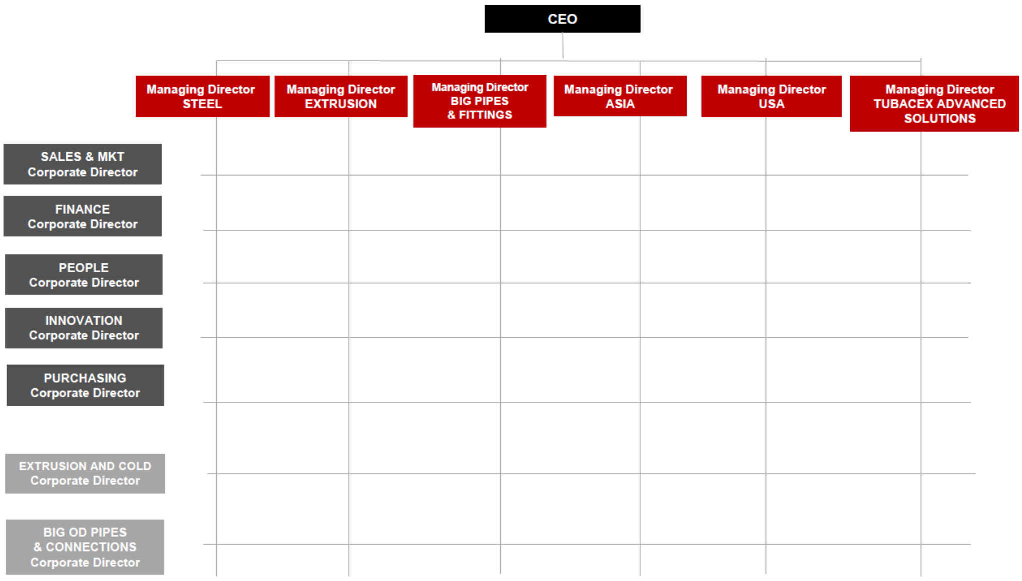
The main demand segments for the tubes manufactured by TUBACEX are the oil and gas, petrochemical, chemical and power generation industries. It also devotes part of its production to the mechanical industry, aerospace, food, water desalination, electronics, capital goods and new technologies, among other industries.



CANADA
SALEM TUBE
USA
*TSS HOUSTON
TUBACEX AMERICA
MEXICO
HEADQUARTERS
ACERALAVA
TTI LLODIO
TTI AMURRIO
TTI OCTG
TTA
TUBACEX SERVICES*
TSS/CENTRAL WAREHOUSE*
TUBOS MECANICOS*
SPAIN
NETHERLANDS
UK
FRANCE
TSS FRANCE*
FINLAND
SWEDEN
GERMANY
POLAND
CZ
SBER
SBER PU
AUSTRIA
*TSS CENTRAL EUROPE
RUSSIA
MOROCCO
IBF-TUBES
IBF-FITTING
ITALY
TURKEY
UAE
*TSS MIDDLE EAST
INDIA
*TSS INDIA
TUBACEX INDIA
CHINA
JAPAN
S.KOREA
TAIWAN
AWAJI
STAINLESS
SINGAPORE
INDONESIA
BRAZIL
*TSS BRASIL
CHILE
ARGENTINA
SOUTH AFRICA
AUSTRALIA
MANUFACTURING
SERVICE CENTER
*TUBACEX SERVICE SOLUTIONS
SALES REPRESENTATION

1.2. Organization

In order to address the increasing market and customer demands, TUBACEX modified its management model towards a matrix organization based on two criteria: functions and products/regions. This structure favors the corporate alignment and increases the response capacity in light of market changes, improving the information flow and the quality of decision-making at all levels.


CEO
Managing Director STEEL
Managing Director EXTRUSION
Managing Director BIG PIPES & FITTINGS
Managing Director ASIA
Managing Director USA
Managing Director TUBACEX ADVANCED SOLUTIONS
SALES & MKT Corporate Director
FINANCE Corporate Director
PEOPLE Corporate Director
INNOVATION Corporate Director
PURCHASING Corporate Director
EXTRUSION AND COLD Corporate Director
BIG OD PIPES & CONNECTIONS Corporate Director

1.3. Commercial Structure

TUBACEX’s clients can be classified by product / activity / input channel, with a sales team dedicated to this structure. Moreover, TUBACEX operates at international level selling our products on three main markets: Europe, Asia and North America (the US and Canada).

TUBACEX offers the widest dimensional range on the market and has gained an optimal position on the Premium product segment in recent years. This was the result of a strategy centered on growth, geographical and product diversification and commitment to innovation.

In terms of channels, the distribution market has been particularly impacted by this market weakness. To promote product input and service to this channel, Tubacex created Tubacex Service Solutions in 2015. This company was strongly reinforced in successive years with service centers in the main business hubs (Spain, France, Austria, the United States, Brazil, the United Arab Emirates and India). In terms of direct sales to engineering firms and end-users, the weight of this channel in the Group's total sales has remained predominant, in line with the Company’s strategy to become a global supplier of tubular solutions.

Activity segments:

- Oil and Gas Exploration and Extraction
- Refining and Petrochemical Industry
- Power Generation
- Fertilizers
- Metal-mechanic Industry
- Aeronautics and Precision

Products

- Bars and ingots
- Tubes and fittings of up to 72”
- Especial connections
- Tailored solutions
- Stock and service

Channels

- End users
- Engineering firms
- Distribution

1.4. Strategy

Thanks to our previous strategic plan (2013-2016), TUBACEX has been gradually extending our product and service portfolio to become a supplier of tubular solutions. The company is now immersed in a new plan (2016-2020) which is mainly geared towards the acceleration of this process and reinforcement of the Group's position as a supplier of integral tubular solutions, with the value proposal of improving efficiency in projects and processes for its clients, as well as reducing their total cost of ownership.

Our evolution towards high value-added products over recent years has enabled TUBACEX to move closer to end users, get to know their needs and thus, be in an advantageous position to make the most of that knowledge and develop a broader offer.

The main objectives of the strategic plan 2016-2020 are:

OBJECTIVE 1

Reinforcing TUBACEX position as a global supplier of tubular solutions

To achieve this, we need to grow throughout the entire value chain and be present at all stages required to offer an integrated solution: from concept design to installation and maintenance of the solution. In this context, the Innovation department plays a crucial role. As a result, the company is launching and starting to develop new lines of action in R&D, as well as in the search for strategic alliances to develop integrated value proposals, and in particular, in high technology applications.

OBJECTIVE 2

Reducing volatility

Through three main channels: diversification of activity sectors using the products, product diversification towards higher value-added products and reducing the impact of raw materials on order profitability.

OBJECTIVE 3

Generating €1 billion turnover

Generating €1 billion turnover will be broken down into two stages: During the first stage, with a standardized market and current sales mix; and a second stage once full positioning as a supplier of integrated tubular solutions has been achieved.

OBJECTIVE 4

Obtaining a level of excellence exceeding 500 in the EFQM model

The Quality and Excellence EFQM model is a tool to drive and boost continuous improvement in business environments. TUBACEX Group is currently performing a self-assessment to measure excellence evolution in the organization and identify strengths as well as areas of improvement, which can be turned into specific action plans.

1.5. TUBACEX Key Figures

- **Sales:** €677.3 million
- **EBITDA:** €69.6 million
- **Net profit:** €17.4 million
- **Number of plants:** 12
- **Number of warehouses:** 16
- **Countries where the Group has a presence:** 32
- **Number of employees:** 2,383
- **Training hours:** 32,300

2. Materiality

TUBACEX develops its Mission and implements its Vision to meet Stakeholders' needs and expectations. The new process-based management model implemented in 2013, defines the key processes oriented to meeting the customers' needs, as well as the different support and strategic management processes they depend upon.

Each process includes a detailed description of the action methodology, including the procedures to be followed by the teams responsible for implementing each process, as well as key indicators. One of these strategic planning processes encompasses different stakeholders' interests which are channeled through the department managers. Thus, in 2018 the following challenges were identified:

Clients
Long-lasting customer relations
Promote quality at all corporate levels
Customer satisfaction

Suppliers
Create stable relationships with suppliers
Hire suppliers who respect human rights

Employees
Training as a means to improve the workforce professionalism
Health & safety at work

Partners
Meet expectations
Long-lasting relationships with partners/shareholders

Public Administration
Contract transparency with Public Administrations

Community / Civil society
Invest in future generations
Social action for the Community

Environment
Use new environmentally-friendly technologies
Identify environmental issues in the environment where we operate

3. Risk Management

The process-based management model implemented by TUBACEX is defined and deployed at Group level. Each process includes its mission, those responsible for performance, key indicators, control or assessment standards, as well as the description of the main applicable subprocesses and policies. All policies are periodically reviewed and updated to achieve the results envisaged in the implementation of these policies.

The managers in charge of each process are also responsible for promoting and reviewing the policies applicable to the Group in each scope of action, subject to further approval by the corporate department Director or by the company CEO, as applicable. Each policy includes the general objective, main principles and commitments undertaken, among others, as well as the review date. Any potential breach of the provisions set in these policies is reported through the different department directors, supervisory bodies and if necessary, through the ethical channel available in the code of conduct and through the Intranet.

3.1. Policies available

- **Risk Control and Management Policy** The aim of this policy is to set forth the main principles and action framework for the control and management of all types of risks faced by the company.

3.2. Main Risks

TUBACEX has established the mechanisms to identify any uncertainties affecting different activities and processes, analyze controls in place to reduce the possibility of a potential risk materializing, and adopting measures to reduce or control risk in areas where risk is perceived to be above the limits permitted for the company. The Board of Directors, through the Audit and Compliance Committee created in 1996, is responsible, among other duties, for directing and supervising risk management also delegated in the Internal Audit department in charge of preparing annual plans based on the map of risks identified.

Identification of Risks:

Therefore, the purpose of TUBACEX risk map is to identify and measure any risks the organization may be exposed to, providing an analytical view of the underlying causality as well as offering a wide view of the organization global exposure. The map shows the places of risk and the routes which may be used for the risk to arise or spread: linking business processes with their corresponding risks while helping to assess their impact throughout the organization. The risk classification used by TUBACEX is the following:

- **Business Risks:** Those arising from uncertainty regarding the performance of key variables inherent in the business (demand and strategies of different players).
- **Market Risks:** They refer to the exposure of the Group’s results and net worth to changes in market prices and other variables, such as exchange rates, interest rates and prices of raw materials, among others.
- **Operational, Technological, Environmental, Social and Legal Risks:** those related to direct or indirect economic losses resulting from inadequate internal procedures, technological faults, human error, or as a result of certain external events, including the economic, social, environmental, and reputational impact thereof, as well as legal and fraud risks. These risks include those associated with technological obsolescence or information technology.

- **Corporate Governance, Ethics and Compliance Risks:** To ensure the corporate interest of the Tubacex Group, understood as the common interest of its shareholders in creating value of the Company, compliance with the Company's Corporate Governance Standards, inspired by the good governance recommendations generally recognized in the domestic and international markets in which the Tubacex Group undertakes its activity, compliance with the Code of Conduct and compliance with the applicable legal requirements, as well as the control of risks associated with committing crimes, including fraud, bribery and corruption, among others is essential.
- **Credit Risks:** defined as the possibility that a counterpart fails to perform its contractual obligations, thus causing an economic or financial loss to the Group.
- **Strategy and Innovation Risks:** Risks associated with the definition of the strategic positioning of the company, its communication and alignment, as well as the lack of innovation, its execution at an inadequate pace, or the late entrance of these innovations in the market.
- **Regulatory and Political Risks:** Those arising from regulatory changes made by the various regulators (environmental, fiscal, competition, etc.), as well as those related to nationalization or expropriation of assets.

Once risks associated with the different processes are identified, as defined in the corporate risk map preparation manual, measurement and prioritization methodology is established based on a matrix of probabilities and impact on strategic goals.

In the financial year 2018, TUBACEX updated its corporate risk map allocating people responsibilities for each and introducing new risks (beyond the historical risks detected) identified as a result of the Group expansion (at geographical, operative and product levels). Such risks were assessed according to their impact on strategic results and the degree of probability and likelihood, and whenever necessary the risks with the highest occurrence likelihood and impact on strategic results are broken down. In addition to the corporate risk map, the Internal Audit department prepares a specific risk map for those projects considered strategic for risk assessment purposes.

Liability:

The systems are applied through an organization structured into the following four levels of protection and defense to face and manage significant risks:

- ✓ The Audit and Compliance Committee regularly reviews the internal risk control and management systems, including the fiscal systems, to identify, analyze and report the main risks.
- ✓ The Internal Audit Department provides advice and reports to the Committee on risks associated with the balance, and the functional activity departments on existing risk identification, measurement and control.
- ✓ The Management Committee is responsible for undertaking the integrated risk control and management in business and decision-making processes.

Process-based management model supervision activities

The Audit and Compliance Committee, through the Internal Audit department, supervises some processes and controls of the process management system implemented in the Group once a year, as defined in the internal audit plan specific for each financial year.

Audit Plan 2018

The audit plan 2018 was dully approved by the Audit and Compliance Committee, as well as by the Board of Directors in January 2018.

This plan was drawn up taking into consideration the main risks for the organization and their prioritization in relation to supervisory activities, as well as the practices of the internal audit department. In other words, this is an independent and objective advisory and consultancy department created to add, recover and improve the Organization operations and to help the Organization to meet its objectives through a systematic approach to assess and improve risk management, control and governance processes.

The activities envisaged in 2018 were mainly based on the following areas:

- Supervision activities of the financial information internal control system (FIICS);
- Management audits of sales offices
- Process-based management model audits of Tubacex Group
- Other supervision activities, including those set forth in the corporate fiscal policy
- Other advisory activities aimed at Tubacex Group's Managers and Directors

Tubacex Group's Internal Audit Department strictly complies with the provisions of the International Standards listed in this section, such as the Institute of Internal Auditors (IIA), as well as the rules governing the Internal Audit Department.

4. Material Aspects

4.1. Environment

TUBACEX has a priority strategy of improving environmental performance. Therefore, all of the Group's units systematically implement actions to minimize the environmental impact related to their activity in all operational situations, including emergency situations. At the same time and also in the field of environmental impact, environmental control and monitoring programs are managed in accordance with the applicable law, as well as with other provisions set forth by the relevant administrations. In this context, environmental investments in excess of €1 million were made in 2018.

All BUs have implemented an Environmental Management System in accordance with ISO 14001 which are certified by an approved standardization and certification organization body. In this way, the entire production process, from the reception of raw materials and the production of stainless steel to the shipment of finished manufactured tubes, has now been approved by an environmental management accreditation body.

The environmental monitoring programs developed by the plants and emanating from the requirements defined in the integrated environmental authorizations have been implemented without any incidents, and submitted to the authorities complying with the formal requirements and deadlines.

Moreover, as part of TUBACEX Group commitment to promote the transition towards a circular economy, the company joined the circular economy pact promoted by UNESID in September 2017. This shows the company's desire to collaborate promoting sustainability, innovation and responsibility in this field, paying attention to all the production process phases, in line with the Action Plan presented by the European Commission to turn Europe into a more efficient society in the use of resources.

Material aspects:

1. **Available policies and manuals:**
   - **Quality, Safety and Environmental Policy.** The objective set by TUBACEX in the Prevention, Quality and Environmental Policy, aims at minimizing environmental damage caused by the company’s activity by using clean technologies, implementing any measures necessary to protect the environment and prevent contamination, as well as complying with/exceeding the applicable environmental law and other requirements undertaken by the Group while building relationships based on transparency with Stakeholders.
   - **CSR Policy.** The CSR Policy sets to constantly foster a safe and pleasant workplace, whilst respecting the environment. Thus, environmental impact is an important part of the overall objective of this policy management.
   - **Code of Conduct.** TUBACEX expresses respect and concern for environmental protection and sustainable development and embraces a commitment to carry out our activity using resources required to protect the environment. Due to its industrial nature, TUBACEX is aware of the impact of our industrial activity on the environment and surrounding setting, and maintains strict environmental monitoring, promoting clean energies, appropriate waste management and minimizing impact.
   - **Purchasing Policy.** Among other matters, the Purchasing Policy focuses on guaranteeing that the quality of the purchased products and hired services comply with technical, safety and environmental requirements, in addition to issues related to human and labor rights.
   - **Supplier Quality Manual.** TUBACEX’s Supplier Quality Manual sets compliance with international environmental protection standards as a requirement to be included in the company's panel of approved suppliers. These protection standards include but are not limited

to: ISO 9001 or QS-9000 alternatively, VDA, ISO / TS 16949 or EAQF or API Q1 certifications may also be accepted; ISO 14001 (in particular those suppliers included in the "Environmental Risk Suppliers" (ERS) list must have obtained this certification or alternatively submit a plan to obtain ISO 14001 standard certification within the 24 forthcoming months); as well as other occupational risk prevention certifications.

- **Quality & Environment Manual.** This manual systematically covers and organizes the policy, organization and directives applied by TUBACEX to its activity to ensure the requirements of ISO 9001 and ISO 14001 standards are met.

2. Material aspects:

- **Use new environmentally-friendly technologies.** The use and consumption of energy and raw materials will be effectively managed within Tubacex Group and its suppliers, respecting the environment and minimizing the consumption of energy, water and transport, as well as other resources used.
- **Identify environmental issues in the environment where we operate.** Each business unit is responsible for identifying environmental risks impacting it.

3. Risks identified:

Environmental risks identified are associated with direct or indirect economic losses which may be derived from inappropriate internal processes, technological failures, human error or as a result of external events, including its economic, social, environmental impact and loss of reputation as a result.

4. Indicators

See Annex I: Environmental data table

5. Main action lines of 2018:

Waste/Dumping

- Continuous identification and commissioning of more sustainable alternatives (environmental and economically) for waste management.
- Specific waste recovery projects which are currently under way, enable the development and validation of raw materials based on iron and steel by-products such as steel plant dust, metal sludge or slag, to recover valuable metals such as chromium, nickel and molybdenum and produce quality alternatives with volumetric stability.
- Landfill closure in Acería de Álava (as per Decree 49/2009, Decree 1481/2001, Act 16/2002 and further amendments).

Legislation:

- Once the environmental assessment of the three plants, as per Law 26/2007 on environmental responsibility and its amendment (Law 11 / 2014) has been completed, the main conclusion is that risks are low compared to other companies in the sector.
- Participation in the new Ferrous Metal Processing BREF.
- ACERALAVA has applied to become a slag recovery agent to prepare for future scenarios where on-site recovery may be necessary.

Wastewater

- Reducing water contamination as a result of different activities as part of the water cycle improvement project at TTI Llodio.

Occupational Health and Safety

- A Risk Assessment from the environmental and safety points of view (risk matrix) is carried out in compliance with ISO 140001.
- Specific training in OSHAS. safety committees, etc. to promote safe practices.

Energy Use

- Energy consumption reduction derived from the light fitting replacement program, in favor of using LED technology in production site in India.
- Implementation of oxy-gas burners to heat cutters in ACERALAVA (to reduce natural gas consumption).

Water Consumption

- Installation of flowmeters to control water consumption in ACERALAVA and TTI.

Materials

- Implementing an annual program to improve material performance in TTI – ACERÁLAVA plants for different lines of products, with monthly KPIs monitoring.

Innovation focused on reducing environmental impact.

- TUBACEX continues to uphold its commitment to address the challenges faced by our clients with the development of new technologies and solutions oriented to improve energy efficiency and competitiveness. TUBACEX's products are used in the most critical environments and are subject to high pressures, temperatures and corrosion. Designing products of the highest quality and reliability with reduced environmental impact once installed is also crucial.

6. Other matters of interest

Precautionary Principle application

TUBACEX has implemented a voluntary ISO 14001 certified system aimed at controlling processes to prevent and minimize the environmental impact caused by our activity. Moreover, due to the nature of the activities carried out by TTI-ACERALAVA, the Integrated Pollution Prevention and Control Directive (known as IPPC Directive) transposed into the Spanish Royal Legislative Decree 1/2016 of December 16, is applicable. Therefore, the company has obtained Integrated Environmental Authorizations implying the control of all environmental aspects of the activity through surveillance plans and periodical reporting to the Administration in a relationship based on transparency.

Provisions and guarantees for environmental risks.

Since 2000, TUBACEX has taken out an environmental liability insurance which provides ample coverage for eventual risks derived from the industrial activity carried out in our plants. Initially covering Spanish units, since 2017 the policy is an international program now covering all foreign production units. In addition to this and to comply with the requirements of the Environmental Responsibility Act 26/2007, an environmental risk analysis was performed in 2018 in the three plans under the SID-MIRAT framework in accordance with the Ministry for the Ecological Transition (MITECO). This is a tool developed by the Technical Committee for the Prevention and Repair of Environmental Damage (made up of representatives of the central Administration and Autonomous Communities) to assess environmental risks. Although the analysis concluded that the risks assessed are very low, the company has the financial guarantees already mentioned in place.

As of December 31, 2018, the only provision maintained by Tubacex Group to cover any possible environmental risks registered is a provision amounting to €596,000 registered in the consolidated balance sheet (€540,000 as of December 31, 2017), in the United States of America to cover a risk of water pollution (Note 29 of Consolidated Balance Sheet), for an amount appraised by an independent expert. The company

Directors estimate there are no significant contingencies related to possible lawsuits, indemnities and any other item.

Raw material consumption - MaM scrap optimization project

TUBACEX has implemented an ongoing project to reduce scrap, which aims at minimizing the input / output ratio of raw materials, optimizing consumption in this way. The project objectives are set for each plant with the corresponding action plans and at the same time, with action plans for each process. On the other hand, the company has launched a circular economy project for scrap management, seeking to achieve better performance in fusion processes.

Raw materials consumption can be broken down as follows:

Society	**Tons**
ACERÁLAVA	89,100[(1)]
TTI LLODIO	42,756[(2)]
TTI AMURRIO	19,567[(2)]
TOTAL	**151,423**

See Annex I: Environmental data table

[(1)] In Aceralava, the figure reported refers to materials used to produce steel bars. As input data, ingot production data has been taken into account. The most consumed raw material in Aceralava is stainless steel scrap.

[(2)] In TTI, the main raw materials are related to billets and surface roughing.

For the purpose of this report, only raw materials used in ACERALAVA and TTI have been taken into account. Raw materials used in the other plants will be considered for inclusion in future reports.

Reduction goals voluntarily set in the medium and long term to reduce GHG emissions and resources implemented

Aware of the impact caused by our industrial activity, TUBACEX has implemented industrial plans in all its plants, which have contributed to enhance productivity, competitiveness and safety. In the case of ACERALAVA and due its high impact on GHG emissions, the company is making every effort to optimize transformation processes, with the main goal of maintaining emission ratios to be acceptable under the national emission plan and within the long-term objectives set forth by the Kyoto protocol.

4.2. Social and personnel related matters

As part of its management processes, TUBACEX has included a specific HR process where the main action principles regarding talent management, communication and training are established. Furthermore, the company has a management process in place for occupational risk prevention which sets forth the requirement of defining an annual plan compliant with the current legislation, as well as an occupational risk assessment.

The company is made up of a multicultural multidisciplinary team of 2,383 professionals who pursue the business project from different scopes of performance. They are strategic key assets to drive success in the organization and for value generation. Offering a safe and pleasant work environment to involve teams in the business project and foster their personal and professional growth are some of the priority axes in the people management department of the organization.

1. Available policies and manuals:

- **Quality, Safety and Environment Policy.** As part as its Prevention, Quality and Environmental policy, TUBACEX sets forth as their goal the management of Operations under healthy and safe working conditions, undertaking to eliminate any hazards whenever possible, controlling and minimizing risks and setting Human Life as a priority before any other financial, commercial or production consideration, in compliance with the applicable law and any other requirement undertaken by the Group.
- **Communication Policy.** Communication at TUBACEX Group operates following the values of transparency, truthfulness, simplicity and dialog, and is aimed at building and consolidating relationships with its stakeholders, in order to help achieve business objectives.
- **CSR Policy.** Through its CSR Policy TUBACEX undertakes to contribute to the development of professionals and people, by means of team work and ongoing measurement of results, fostering a safe working environment at all times.
- **Code of Conduct.** TUBACEX's Code of Conduct defines health and safety at work as the main concern for the company. Thus, as we are very aware of the impact and risks derived from our activity, it is our priority to work in a safe environment.
- **Gender Equality Plan.** In 2016 the diagnosis update and preparation of the Gender Equality Plan II was accomplished. The new plan covers challenges still pending set in Plan I and also new requirements to fight against discrimination, if any, and to foster gender equality in the company. (Application 2017-2019)
- **Equal opportunities policy.** An equal opportunities policy is in place in TTI-ACERÁLAVA, ratifying the plant's commitment to equal treatment and equal opportunities for men and women.

2. Material aspects:

- **Training as a means to improve the workforce professionalism.** TUBACEX is aware of the importance of people's development as an active asset and a driver for the business and to promote corporate strategy.
- **Health & safety** at work. Health and safety at work is the main concern for TUBACEX. We are very aware of the impact and risks derived from our activity and it is our priority to work in a safe environment. In this context, each collaborator is responsible for all activities undertaken in their scope to be carried out in accordance with our comprehensive internal regulations in health, safety and environmental matters.

3. Risks identified:

- **Brain drain.** Our people are a key asset and their training, satisfaction and commitment play a crucial role in driving the company to its strategic position. Therefore, attracting, maintaining and capturing talent is one of the main priorities of the HR department.
- **Health and Safety.** Providing safe work environments and a preventative culture in terms of safety is crucial for a company like TUBACEX, due to its strong industrial nature.
- **Operational, Social and Legal Risks:** those related to direct or indirect economic losses resulting from inadequate internal procedures or human errors, including the economic, social, environmental, and reputational impact thereof, as well as legal and fraud risks.

4. Indicators:

The details of Tubacex Group workforce are described as follows:

Total workforce

Distribution of employees per professional qualification

Professional qualification	Average workforce in 2018
Office staff (*)	449
Technical staff and middle management	286
Laborers	1,648
Total	**2,383**

(*) Office staff include Senior Management and administration personnel.

Note: All information related to the workforce breakdown included below relates to 94% of the total workforce indicated in the above table:

Distribution of employees by country and gender

Country	No. of employees in 2018		
	Men	Women	Total
Spain	971	182	1,153
Italy	212	17	229
Austria	470	56	526
France	5	-	5
Thailand	40	25	65
India	149	5	154
United States	105	9	114
Brazil	-	1	1
TOTAL	**1,952**	**295**	**2,247**

Distribution of employees by professional qualification and gender

Professional qualification	No. of employees in 2018		
	Total	Women	Total
Office staff	238	135	373
Technical staff and middle management	300	54	354
Laborers	1,414	106	1,520
TOTAL	**1,952**	**295**	**2,247**

Distribution of employees by age and gender

Age	No. of employees in 2018		
	Men	Women	Total

Under 30	382	43	425
30 - 50	1,154	211	1,365
Over 50	416	41	457
TOTAL	**1,952**	**295**	**2,247**

Average compensation and evolution broken down by gender, age and professional qualification or equal value and Pay Gap

	Women	Men	Pay gap
EUROPE	37,960	45,666	17%
ASIA	17,692	18,923	7%
AMERICA	52,811	63,267	17%
TUBACEX GROUP	36,155	42,619	15%

The applicable collective agreements regulate the average compensation of Tubacex' employees, according to equality criteria among similar work positions regardless of gender. In this context, compensation for employees protected by a bargaining agreement, as well as for those who have not signed it, are equitably established to prevent gender discrimination. A pay gap may be due to different reasons: historical low presence of female employees in some activity areas (workforce composition), different specialization of jobs and seniority, among others.

Tubacex's salaries are above the statutory minimum wage in the countries where we operate, and all Tubacex employees are paid an equivalent or higher salary compared to the same job or the average in the companies where they work.

However, information related to average compensation broken down by professional qualification and age was not collected in time and format. Nevertheless, Tubacex Group is working to strengthen reporting systems and standardizing template reporting and compensation criteria, with a view to include this information in future reports.

Average compensation of Directors and Management

Regarding the Directors' compensation, the details and individual breakdown are included in the Annual Report on Directors' Compensation, which is published by the parent company as a listed company.

Annual average fixed-term, temporary and part-time contracts by gender, age and professional qualification

By gender:

Type of contract:	**Annual average 2018**		
	Men	**Women**	**Total**
Fixed-term contracts	1,621	253	1,874
Temporary contracts	239	37	276
Part-time contracts	51	34	85
TOTAL	**1,911**	**324**	**2,235**

By age:

Type of contract:	**Annual average 2018**			
	Under 30	**30 - 50**	**Over 50**	**Total**
Fixed-term contracts	220	1,214	440	1,874
Temporary contracts	61	208	7	276
Part-time contracts	3	18	64	85
TOTAL	**284**	**1,440**	**511**	**2,235**

By professional qualification:

Type of contract:	Annual average 2018			
	Office staff	Technical staff and middle management	Laborers	Total
Fixed-term contracts	329	317	1228	1,874
Temporary contracts	21	8	247	276
Part-time contracts	29	17	39	85
TOTAL	**379**	**342**	**1,514**	**2,235**

Total number and distribution of employment contract types

	2018
Fixed-term contracts	2,046
Temporary contracts	201
TOTAL	**2,247**

Breakdown of dismissals for the FY

By gender:

Number of dismissals	2018
	Total
Men	97
Women	6
TOTAL	103

By age:

Number of dismissals	2018
	Total
Under 30	22
30 - 50	60
Over 50	21
	103

By professional qualification:

Number of dismissals	2018
	Total
Office staff	9
Technical staff and middle management	22
Laborers	72
	103

Total number of employees with disabilities

The total number of employees with disabilities employed by the Group is 18.

Number of hours lost to absenteeism

Hours lost	2018
Number of days lost	2,612
Number of hours lost	20,896

% of absenteeism	4.30%

Work accidents (frequency and severity) broken down by gender

Work accidents (frequency and severity) broken down by gender	2018
Accidents with sick leave	119
Accidents without sick leave	123

The information related to work accidents broken down in the above table is not specified by gender. The risk profile is associated with each work position, and gender is not relevant in terms of Occupational Safety for Tubacex Group. Thus, work accidents are not managed by gender but by hazard level for each work position by Tubacex Group.

Occupational diseases

No occupational diseases were identified in 2018. The company is working hard to foster a preventative culture in terms of occupational risks, providing the employees with the necessary means and measures to prevent any possible negative impact on their health.

% of employees covered by collective agreement

Country	% of employees covered by collective agreement
Spain	98%
Italy	90%
Austria	95%
United States	77%

In the other countries (Brazil, France, India and Thailand) the workforce is not covered by a collective bargaining agreement. It is worth mentioning that any Tubacex Group employee who is not covered by a collective agreement is included in a special group which enjoys better conditions of employment than those specified in the agreement.

5. **Main activities:**

Training:

At the Tubacex Group, people development takes on special importance, as set out in its Mission, Vision and Values. The company has highly skilled and qualified professional teams to carry out their functions who have access to ongoing training plans to adapt to the market demands.

Training at TUBACEX is part of the growth lever for those who are part of the organization and with them, of the company itself. Thus, the different processes involved in the People management department have been standardized, including training and development processes, and a training plan aiming to promote the development of professional competences among the employees is deployed annually. Last year, 32,343 hours of training were delivered in the following areas:

- Occupational risk prevention, code of conduct and personal data protection, investing the highest percentage of the training provided in this field.
- Vertical skills to ensure the suitability of the technical skills of the workforce to the functions of the post, implementation of cell systems, fostering versatility and multiple skills.
- Horizontal skills to guarantee the necessary skills to face the change process, and training in quality, processes (BPM), projects and continuous improvement.

- Skills at management level with the aim of developing a leadership style for directors to build up a constructive style to ensure the work culture of the BUs evolves towards greater customer orientation.
- Company and strategy. This chapter includes sessions promoted to extend knowledge of the company strategy.

- **Performance appraisal programs**

In order to promote the development of teams aligned with our positioning as a global supplier of tubular solutions, TUBACEX has implemented people development and performance appraisal programs. These programs are launched by the People Development department through Business Unit and Department Directors, and allow gearing professional development towards the compliance with the strategic objectives of the company.

- **Dual Training**

Since 2016, TUBACEX launched three dual training programs specialized in "Mechatronics" (2016) and "Extrusion, Rolling and Forging" (2017) and "Non-Destructive Tests" (2018), promoted by the company in collaboration with the Basque and Austrian Governments, as well as different vocational training centers.

These programs are four years long and 75% of their contents are carried out at the work center while the other 25% are taught in the classrooms. They also include a year of international work experience at any of the Group plants in the USA, Italy, Austria or India, which completes and rounds off the training.

This training modality was consolidated in 2018 with the launching of the third program, and when the first international work experience included in these programs started. Two young trainees who were involved in the first Maintenance program launched by the company traveled to SBER (Austria) to complete their training and round it off with a rewarding experience at professional and personal levels.

By the end of 2018, 45 students were enrolled in these specialized training programs.

AÑO	PROGRAMA	TTI-ACVA			SBER			TOTAL
		AÑOS ANTERIORES	NUEVAS INCORPORACIONES	TOTAL	AÑOS ANTERIORES	NUEVAS INCORPORACIONES	TOTAL	
2016	MANTENIMIENTO	4	5	9	9	7	16	**25**
2017	MANTENIMIENTO	5	5	10	11	5	16	**41**
	PRODUCCIÓN: EXTRUSIÓN, LAMINACIÓN Y FORJA		15	15				
2018	MANTENIMIENTO	5	1	6	11		11	**45**
	PRODUCCIÓN: EXTRUSIÓN, LAMINACIÓN Y FORJA	14		14	3		3	
	NDT		5	5		1	1	
	Universidades		2	2	3		3	

- **International Scholarships / Global Training**

As well as dual training, TUBACEX Group has made a commitment to internationalization of education processes offering international scholarships. In 2018, four trainees joined SBER (Austria) and Awaji Stainless (Thailand) with a scholarship funded by the Basque Government. Two engineers went to Austria, and two students who had completed Vocational Training and University studies traveled to Thailand. All of them joined their new destinations in November.

- **Recognition of skills**

Finally, it is worth highlighting the Review and Accreditation of Professional Skills program which intends to recognize and accredit the skills acquired through labor experience or informal training channels. In the program launched in 2017 at Tubacex Group plants TTI (Llodio and Amurrio), ACERÁLAVA (Amurrio) and TTA (Artziniega). Provisional results indicate that four employees successfully passed all the necessary competences and 12 of them passed some of the subjects.

Equality and Diversity:

Regarding the promotion of equal opportunities, TUBACEX seeks diverse talent, promoting equal opportunities.

On the one hand, TUBACEX promotes policies to encourage equal treatment and opportunities for men and women, with the preparation of gender equality plans in the most representative plants, where aims, strategies and best practices to be implemented are defined. These plants drive the highest volume of contracts (located in the Basque Country) where the second gender equality plan was deployed in 2018, identifying improvement plans in collaboration with the employees' representatives. Despite the industrial nature of the company, it is worth highlighting that 31% of the jobs are held by women. Thus, selection and recruitments processes for TUBACEX personnel are based on the professional skills of candidates in relation to the needs to be covered, trying to attract the best candidates at all times, and to retain talent through an objective and suitable management. During 2018, no claims related to breaches of this policy and the principle of equality have been registered through the ethical channel, offered to the employees for that purpose.

Any discrimination based on gender or any breach of equal rights between men and women must be reported through the ethical channel by any person who may come across them. Tubacex's Code of Conduct denounces any sexual harassment and discrimination based on gender.

On the other hand, in 2018 the company continued to work with the ONCE foundation in the Inserta Program with the aim of promoting the recruitment of **functional diversity** employees as part of the Group's workforce. An actual commitment to integrating different talent has materialized in an agreement signed under the framework of the Social Inclusion and Social Economy program promoted by the Fundación ONCE through Inserta Empleo and funded by the European Social Fund. It is worth highlighting that plants in Spain comply with the Spanish General Law on Disability. Although compliance is achieved by alternative measures, the company is promoting its commitment to integration with the abovementioned integration plan developed under the Fundación ONCE agreement framework.

Health and Safety:

OHSAS 18001

TUBACEX's Occupational Hazard Prevention and Safety policy covers the development, implementation and monitoring of a series of activities which generally make up a tool to prevent and improve occupational health and safety management. This program meets the requirements set by OHSAS 18001 of the Occupational Health & Safety best practices, aimed at enabling organizations to control their risks and improve performance. The main production business units in Tubacex Group are certified to OHSAS 18001, the most demanding standard in terms of occupational safety.

Management processes

TUBACEX has added to its management processes, a specific Occupational Risk Prevention which establishes the drafting of an annual plan to comply with the current regulations, as well as an occupational risk assessment. As with any other matter, TUBACEX fully complies with the current law on the Health & Safety of its collaborators, with a firm commitment from the Management and major investments aimed at improving installations and processes in order to re-educate as much as possible on the risks related to production activity.

Proactive participative culture

Tubacex Group's Mission includes promoting a safe and pleasant work environment at all times, and sets health and quality of living at work as a priority in the People Department plans.

We are very aware of the impact and risks derived from our activity and it is our priority to work in a safe environment. Through its history, the company has been working to build a preventative culture based on participation and understood as a series of positive and proactive attitudes and ideas regarding health and safety, which are shared by all members of the organization. Through these measures, each person is able to carry out prevention actions which prevent risks of any type, and implementing them in their daily routine.

To build this preventive culture, Tubacex Group companies located in the Basque Country (TTI and ACERALAVA) have defined five strategic pillars, the first one being commitment. In 2017 the senior management undertook prevention-related commitments after several workshops. In 2018 these workshops have also been offered to operators with the aim of engaging them and raising risk awareness. These workshops reviewed the impact of ideas and emotions on behavior, and the need to work on them to ensure safer behaviors in and outside the workplace. Each participant has undertaken a commitment to prevention which is reviewed monthly.

The workshops are combined with other initiatives which are being implemented in all the plants of the Group within the framework of preventive habit promotion. Some of the latest and most outstanding initiatives include the implementation of the 5S project aimed at achieving cleaner and tidier spaces; the RADAR project to facilitate reporting on the status of actions derived from risk communication; internal audits to share practices and achieve durable improvements in processes, as well as external audits certifying management quality among others. Finally, it is worth highlighting that the induction programs offered in all the Group's plants include specific Health & Safety training.

Regarding collective bargaining agreements and in particular, in the field of occupational health and safety, a Safety Committee composed by a representation of the Works Council, is in place at each Spanish plant.

Freedom of association

Due to the company's economic sector and geographical location of its plants, trade unions play a major role at TUBACEX. Trade Unions inform and defend the rights of the employees, communicating everything related to the company. However, TUBACEX has also established dedicated communication channels with the legal representatives of the employees.

Everything related to Union representation of the employees is regulated in Chapter X of their collective agreements. This chapter describes everything related to the management of the Union's activity, the existing Councils and their competences as well as workers' rights and protections. The chapter is the result of an agreement between the company and the legal representatives of the employees and fully observes the Spanish Organic Law on Freedom of Association as well as any other applicable legal provisions. All legal and regulatory provisions on this matter are observed and fully endorsed in this shared document.

Principles guiding TUBACEX' employees

- the principles of the Universal Declaration of Human Rights;
- the fundamental principles of the International Labor Organization;
- the guiding principles of OECD aimed at multinational companies; and
- the principles of the United Nations Global Compact.

Reconciling the demands of work

TUBACEX is aware of the importance of adapting timetables to strike a balance between professional work and private life. Reconciliation measures mainly based on extending the age to access parent leaves to look after children or flexible reduction of working hours, have been implemented at productions plants. On the other hand, a flexible start and finish timetable is in place at offices to allow personnel to successfully meet their work, personal and family responsibilities.

Work Organization

Tubacex Group complies with the stops and breaks set forth by law and by the applicable collective agreements. Thus, in those cases when employees are not covered by an agreement, the Group also guarantees the appropriate flexibility for each job. Working hours are calculated annually for all the employees so that any employee regardless of the specificities of the job carried out will have the same annual hours allocated to work and enjoy the same stops and breaks.

Communication

Tubacex Group has several communication channels with employees: On the one hand, corporate channels shared by all business units; in this area, it is worth highlighting the quarterly magazine TUBACEX BEAT which is distributed to all employees (as well as other stakeholders such as clients and suppliers). This magazine showcases the latest news on the company in fixed sections such as: highlighted projects, innovation, health & safety, CSR, employees' interviews, clients' interviews, or main sector and company highlights and news. The most immediate channel are periodical releases issued by the People Department on a regular basis and according to the most relevant events (corporate operations, new employees, etc.); and sometimes and depending on the relevance and impact, letters are issued by the CEO. These communications are supplemented by others with less impact which are regularly posted on the Group's Intranet. In addition, it is worth highlighting personal communication channels. These include meetings with natural or transversal teams (technology team, business team, etc.) as well as the annual meetings by business unit with the Key people group or in the plants the meetings in each shift as part of TxPS operational excellence program. Finally, channels deployed by business units also need to be taken into account. Regarding the channels deployed by business units, the communications shared in TTI-ACERALAVA plants are a good example, and include: monthly publications reaching all employees along with their payslip; half-year publications exclusively focused on Health & Safety for all employees on each shift, with the direct involvement of the Management team and HR. In addition, some business units have implemented digital channels such as social networks (SBER, Austria), while other units hold many meetings in person during the year (Tubacex India).

TUBACEX intranet
HOME
TUBACEX GROUP
EMPLOYEE PORTAL
AREAS
PROJECTS
TOOLS
MGMT SYSTEMS
NEWS
Applications
INTERNATIONAL TIME & EVENTS
APPOINTMENTS
COLLABORATION SITES
Collaboration Sites

TUBACEX and SENAAT join forces to grow in the Middle East

TUBACEX's sales rose 46.3% to reach €513.0 million Euro

Madrid (Spain)

21 FEB 2018

07:31

Thursday

February 2018

Mr. Jing Jie NG

SEA SALES DIRECTOR

4.3. Respect for human rights

TUBACEX is fully committed to the protection of Human Rights as they underpin the laws applicable to all the business units upon which each business unit conducts its activity. Human Rights are fully protected by local legislation in each case and endorsed by all those who are part of the group. The company has several tools which demonstrate our full observance of Human Rights such as the corporate collective agreements or the Corporate Code of Conduct.

1. Available policies and manuals:

- **Code of Conduct.** The code provides that TUBACEX's collaborators must abide by the fundamental principles of the Universal Declaration of Human Rights.

- **Purchasing Policy.** The Purchasing Policy along with our Mission, Vision and Values regulate TUBACEX's and the Supplier Market activity, focusing our efforts on ensuring that the quality of products and services purchased comply with the technical, safety, environmental, human and labor rights requirements, among others.

- **General Purchasing Terms and Conditions.** Tubacex Group' general purchasing terms and conditions establish that suppliers undertake to comply with any regulation applicable related to eliminating forced or compulsory labor, child labor, as well as any duress, threat, physical and psychological abuse and violence in the work environment, and discrimination and inequality on grounds of race, color, gender, religion, political opinion, nationality, illness or any other physical or social condition.

As an instrument to follow-up policies related to Human Rights and understanding our corporate collective agreement as a means to safeguard Human Rights, the Follow-up Committee has the duty of reporting any type of violation, among other functions; and the Audit and Compliance Committee has the express mandate of monitoring compliance with the applicable law as well as required by the Board of Directors as well as supervising any matters related to business ethics in the Group. To do so, there is an ethical channel used by the Compliance Director to receive and manage, if applicable, any claim or query regarding suspicious or questionable actions related to the Code of Conduct contents. During 2018, no claim has been made through this channel or by any other means.

TUBACEX aims to become a global leading supplier of innovative tubular solutions in advanced materials, with management excellence and sustainable profitability and always focused on the development of people. Since 2004 when the Group embraced the United Nations Global Compact (UNGP), the workforce has been informed and are aware of the Principles undertaken and all policies related.

2. Main Risks:

- **Corporate Governance, Ethics and Compliance Risks:** To ensure the corporate interest of the Tubacex Group, understood as the common interest of its shareholders in creating value of the Company, compliance with the Company's Corporate Governance Standards, inspired by the good governance recommendations generally recognized in the domestic and international markets in which the Tubacex Group undertakes its activity, compliance with the Code of Conduct and compliance with the applicable legal requirements, as well as the control of risks associated with committing crimes, including fraud, bribery and corruption, among others is essential.

3. Indicators

Claims related to human rights violations

TUBACEX, a pioneer in corporate governance good practices, provides Collaborators with an ethical channel to report to the Compliance Manager any suspicious or possible conflicts of interest requiring analysis. In 2018 there were no claims related to possible violations of the Code of Conduct in this respect. Furthermore, no claim has been filed by third parties or to suppliers.

Compliance with fundamental IOL conventions related to the human rights of freedom of association and collective bargaining.

TUBACEX's collaborators shall always be guided by the fundamental conventions of the International Labor Organization (ILO) and repeal any form of physical, psychological, moral harassment or abuse of power. TUBACEX's collaborators shall treat everyone within the work environment with respect - regardless of their position - fostering a pleasant, healthy and safe work environment. In 2018, no claims or complaints related to the violation of these principles have been filed.

4.4. Fight against Bribery and Corruption

1. **Available policies and manuals:**

- **Code of Conduct.** Each and every collaborator, including TUBACEX's suppliers and clients, will refrain from promoting, facilitating, participating or concealing any type of money laundering, and will denounce any money laundering operation which may come to their attention. TUBACEX stands expressly against all forms of bribery and corruption. In all our actions before authorities and public representatives in Spain, Europe and third countries, if any, TUBACEX always acts observing and in accordance with the applicable law to promote and defend our legitimate interests, while we fight any form of bribery and corruption. In this context, as our Code of Conduct prescribes, any offering and/or favor directly or indirectly provided to obtain business or achieve any advantage by a public or private third party are expressly forbidden. Moreover, TUBACEX does not accept any advantage of these characteristics in exchange for preferential treatment by a third party. The offering or delivery of improper benefits to influence the decision of the recipient even if the recipient is not a government official, not only may lead to the application of disciplinary penalties, but also facing criminal charges. TUBACEX has extended the provisions included in our Code of Conduct to all our suppliers.
- **Compliance Plan.** The annual Compliance Plan verifies and standardizes the local compliance requirements enforced by the applicable local law in the places where TUBACEX carries out production and/or commercial activity.
- **Statutes of the Compliance Function.** Under the framework of the preparation of the prevention of criminal offense protocol, TUBACEX implemented the Compliance Function, reporting to the Audit and Compliance Committee, who played the role of monitoring standard compliance through the organization. At the end of 2018, the Board of Directors went further to approve the Statutes of the Compliance Function, which govern the internal relationships between this independent figure and the governing bodies, as well as with the rest of the organization. One of the main pillars supporting the annual compliance plan is the verification and standardization of local compliance requirements enforced by local law in the countries where TUBACEX carried out production and/or commercial activities.
- **General Purchasing Terms and Conditions.** Moreover, the Group's general purchasing terms and conditions sets forth that suppliers must guarantee that prevention and regulation compliance related to money laundering and bribery between private individuals or in their relations with any public administration are enforced in their organizations. In addition, the Supplier should guarantee that no gift or commission has been paid, and no commission is paid, promised or will be promised to any employee or Client's representative or agent when orders are placed. If the Supplier, or anyone acting on its behalf, is in breach of the provisions set out in this paragraph, the Customer may terminate all Contracts with the Supplier or its group companies.

2. **Material aspects:**

- **Contract Transparency with Public Administrations.** The commercial activity carried out by TUBACEX is based on strict compliance with the current regulations, managing commercial and contractual activities in a transparent way and in compliance with the principles set forth in our Code of Conduct.

3. **Risks identified:**

- **Corporate Governance, Ethics and Compliance Risks:** To ensure the corporate interest of the Tubacex Group, understood as the common interest of its shareholders in creating value of the Company, compliance with the Company's Corporate Governance Standards, inspired by the good governance recommendations generally recognized in the domestic and international markets in which the Tubacex Group undertakes its activity, compliance with the Code of Conduct and compliance with the applicable legal requirements, as well as the control of risks associated with committing crimes, including fraud, bribery and corruption, among others is essential.

4. Indicators:

Contributions to Foundations and non-for-profit organizations

See information provided in “Commitment to Sustainable Development” / Partnership or sponsoring activity.

4.5. Information about the Company

Commitment to Sustainable Development

1. **Available policies and manuals:**

- **CSR Policy.** The aim of our CSR Policy is to set forth the main action principles and commitments undertaken by the company in relation to Corporate Social Responsibility. These principles will be applicable to all the Group's companies.
- **Code of Conduct.** TUBACEX's Code of Conduct is a tool aimed at contributing to the implementation of ethical behavior and conduct standards as defined and developed by the organization. The Code provides a reference framework which should be used as a benchmark to measure the activity of any person in relation to the performance of TUBACEX business activity. Regarding the Group's clients, this Code reflects TUBACEX's continuous improvement vocation, seeking industrial and commercial excellence to supply quality products and services to our clients and always guaranteeing safety and innovation.

2. **Material aspects:**

- **Invest in future generations.** One of the key social objectives pursued by TUBACEX is to foster talent, and promote youth work and employability, and is the main line of action of the Foundation.
- **Social action for the Community.** Supporting the development of communities where we have a presence through employment, hiring local suppliers, supporting sponsorship initiatives and promoting collaboration projects with NGOs are part of TUBACEX commitment to local communities. In the last three years, our main program has been oriented to fostering access to education in the Palghar region of India by improving access to water, sanitation and hygiene.

3. **Risks identified:**

- Very serious and/or systematic **breach** of **basic social rights** (child labor, social discrimination, working conditions, etc.) in the supply chain and/or in the communities where we are present.
- **New talents joining the workforce and youth unemployment** There is a need to train young people to promote their employability on the market and therefore promote their access to the labor market. On the other hand, access to the labor market through TUBACEX would facilitate access to qualified personnel.

4. **Indicators**

Clean Water and Sanitation

- Number of beneficiaries: 1,257 schools (116,000 boys and girls)
- Funds raised: 100,000 Euro/year
- % internal contributions 1.4%

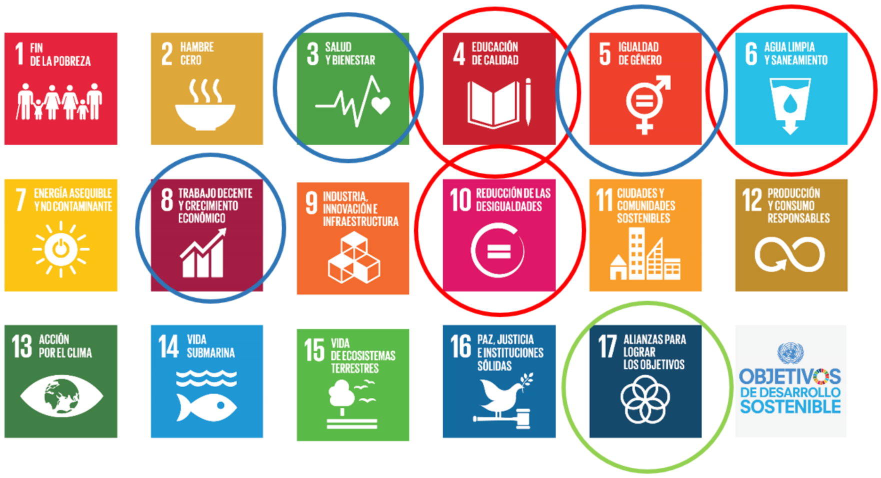
5. **Main activities**

UN Sustainable Development Goals

In February 2016, TUBACEX established its own Foundation to channel all efforts to promote social development in the fields where we are present As the Group experienced international expansion and growth, the will to channel all efforts through this body closely linked to the business strategy, emerged. Such a body will become the main channel to boost projects in three major fields of activity:

- **Training**, as a lever of growth. Facilitating access to a job and improving the employability of young people.
- **Diversity**, promoting plans for social and labor integration of people with diverse talents.
- **Social action**, boosting economic growth for disadvantaged regions where the Group has a presence.

The work lines of Fundación Tubacex, promote the UN 2030 Agenda for Sustainable Development in favor of people, the planet and prosperity through Sustainable Development Goals (SDG). In particular, the following SDGs are promoted: 1. No poverty; 3 Good health and well-being; 4. Quality education; 5. Gender equality; 6. Clean water and sanitation; 8. Decent work and economic growth; 10. Reduced inequalities and 17. Partnership for the goals


1 FIN DE LA POBREZA
2 HAMBRE CERO
3 SALUD Y BIENESTAR
4 EDUCACIÓN DE CALIDAD
5 IGUALDAD DE GÉNERO
6 AGUA LIMPIA Y SANEAMIENTO
7 ENERGÍA ASEQUIBLE Y NO CONTAMINANTE
8 TRABAJO DECENTE Y CRECIMIENTO ECONÓMICO
9 INDUSTRIA, INNOVACIÓN E INFRAESTRUCTURA
10 REDUCCIÓN DE LAS DESIGUALDADES
11 CIUDADES Y COMUNIDADES SOSTENIBLES
12 PRODUCCIÓN Y CONSUMO RESPONSABLES
13 ACCIÓN POR EL CLIMA
14 VIDA SUBMARINA
15 VIDA DE ECOSISTEMAS TERRESTRES
16 PAZ, JUSTICIA E INSTITUCIONES SÓLIDAS
17 ALIANZAS PARA LOGRAR LOS OBJETIVOS
OBJETIVOS DE DESARROLLO SOSTENIBLE

As well as channeling these SDGs through the Foundation, TUBACEX's own activity is also oriented to provide value for stakeholders by fostering the economic development of the regions where it operates, promoting quality products to improve the efficiency of projects, safety and environmental impact, fostering pleasant work conditions, sustainable growth or seeking excellence in all scopes of activity as stated in the mission of the Group.

Local employment and development

TUBACEX contributes to the economic growth of the regions where it is present through the generation of direct and indirect sustainable employment and boosting the professional development of employees. In this context, it is worth mentioning that 66% of TUBACEX' suppliers are based in the Basque Country.

On the other hand, as part of its mission to facilitate the development of society, suppliers and employees, TUBACEX brings its policies and requirements regarding quality, human and environmental rights closer to the value chain. Regarding teams, the company promotes safe and pleasant work environments and encourages the professional development of people, to adapt them to the business world while boosting their employability on the market.

Regarding the most vulnerable stakeholders, TUBACEX promotes quality training in different formats (dual training, international scholarships, work experience training, etc.) and works in cooperation with different bodies such as Fundación Nova Salcedo, different Vocational Training centers, the Basque Government, Austrian Chamber of Commerce, etc. Training is oriented to provide knowledge and tools necessary for young people to access the labor market, and this experience drives their employability and promotes employment.

Local communities

As part of Fundación Tubacex main third line of action, a collaboration agreement with UNICEF was signed in November 2016 for the promotion of childhood education in the Palghar district (India) by improving access to water, sanitation and hygiene. This three-year agreement has been maintained active in 2018 encouraging communication and participation among shareholders, through voluntary donations channeled through payslip donation schemes, bank transfers or crowd-funding platforms at www.tubacex.com/unicef. To implement the 2018 program, Fundación Tubacex contributed with €100,000 (from private donations and corporate contribution), a sum which will keep the program in operation throughout 2019.

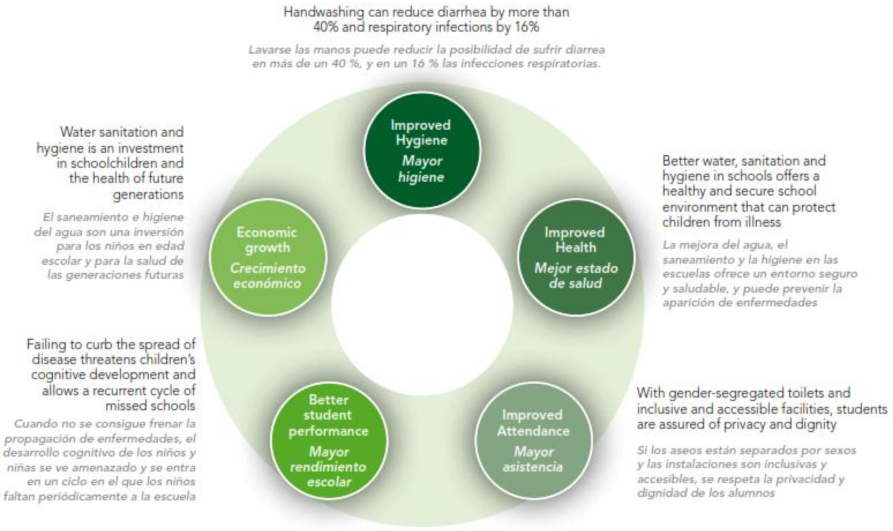

Handwashing can reduce diarrhea by more than 40% and respiratory infections by 16%
Lavarse las manos puede reducir la posibilidad de sufrir diarrea en más de un 40 %, y en un 16 % las infecciones respiratorias.
Improved Hygiene
Mayor higiene
Better water, sanitation and hygiene in schools offers a healthy and secure school environment that can protect children from illness
La mejora del agua, el saneamiento y la higiene en las escuelas ofrece un entorno seguro y saludable, y puede prevenir la aparición de enfermedades
Improved Health
Mejor estado de salud
With gender-segregated toilets and inclusive and accessible facilities, students are assured of privacy and dignity
Si los aseos están separados por sexos y las instalaciones son inclusivas y accesibles, se respeta la privacidad y dignidad de los alumnos
Improved Attendance
Mayor asistencia
Better student performance
Mayor rendimiento escolar
Failing to curb the spread of disease threatens children's cognitive development and allows a recurrent cycle of missed schools
Cuando no se consigue frenar la propagación de enfermedades, el desarrollo cognitivo de los niños y niñas se ve amenazado y se entra en un ciclo en el que los niños faltan periódicamente a la escuela
Economic growth
Crecimiento económico
Water sanitation and hygiene is an investment in schoolchildren and the health of future generations
El saneamiento e higiene del agua son una inversión para los niños en edad escolar y para la salud de las generaciones futuras

Chart prepared with own Information UNICEF. Contribution to development through the promotion of childhood learning.

Moreover, in 2018 TUBACEX made a contribution of €4,300 to Tubacex America to support employees and families impacted by Hurricane Harvey in August 2017, which matched the contribution raised by the victims' employees and workmates.

Finally, another activity worth highlighting in the local environment is participation in talks at school and university centers, as well as the opportunity to arrange visits to bring the business world closer to young students. Talks have been extended to the most vulnerable communities, such as the Open Day organized along with the Bakuva association, with the most vulnerable boys and girls from a Bilbao neighborhood which showcased the different employment alternatives from the insight of TUBACEX's professionals. Young people had the opportunity to discuss the needs of the company regarding employment with the managers as well as visiting the company premises (March 2018).

Stakeholders' participation

TUBACEX has implemented different tools and allocated people responsible for entering into a dialog with its stakeholders. Thus, each Department Director is responsible for setting up the necessary communication systems and channels, as well as regulating communication periodicity, ascertaining the stakeholders' concerns in relation to the activity carried out, as well as informing on current issues and policies of the company. The definition of stakeholders is described in the strategic planning process.

Stakeholders	Person Responsible:	Info Source	Frequency
Majority shareholders	Chairman and CEO	Shareholders' channel Meetings AGM	Continuous Continuous Annual
Minority shareholders, investors and analysts	CEO Financial Director and Head of Investor Relations	By telephone At meetings	Continuous Continuous With annual objective
Administration	CEO	Meetings Presence in forums Regulations	Continuous Continuous Continuous
Clients	Sales Director	Satisfaction Surveys Visits Presence in forums Fairs Customers' Day Claims Market Research Client profile Type of order	Biannual Continuous Continuous Continuous Annual Continuous Continuous Continuous Continuous
Suppliers	Purchasing Director	Meetings Presence in forums Alliances	Continuous Continuous
Employees	People Management Director People Development Director	Satisfaction EFQM Suggestions Key forums Training	Biannual Annual Continuous Continuous Continuous
Society	Chairman and CEO Communications Manager	Key forums Training Meetings Board of Trustees Alliances Key Projects: Environmental Indicators	Continuous Continuous Continuous Four-monthly Timely Annual Continuous

Partnership or Sponsorship

As part of our commitment to art and culture, TUBACEX has continued to support projects carried out by the Guggenheim and Artium Museums through our participation and financial contribution.

Furthermore, the company continues to support the Novia Salcedo Foundation awards with a financial contribution of €10,000 to show its commitment to help young people who start their professional career. It is worth highlighting TUBACEX ongoing collaboration with Novia Salcedo helping young apprentices to integrate in the workplace.

Beneficiary	Contribution
Fundación Novia Salcedo (award)	€10,253
UN Global Compact Signatory's fee	€4,700
Guggenheim Museum. Sponsorship	€7,146
Artium Museum. Sponsorship	€6,000
Hurricane Harvey. Help for employees	€4,300

Subcontracting and Suppliers

The Tubacex Group Procurement Function is responsible for obtaining the suppliers, products and services necessary for the correct functioning of the business from the market, focusing its efforts on improving supply and the development of suppliers, in terms of quality, service, corporate social responsibility and costs.

1. Available policies and manuals:

- **General Purchasing Terms and Conditions.** Contractual relationships with TUBACEX are defined in the "General Purchasing Terms and Conditions", a reference document which governs the relations between the company and teams of professionals with the suppliers, and is also included in the Purchasing process of its process map.

- **Purchasing Policy.** The Corporate Purchasing Policy establishes the regulations guaranteeing that suppliers comply with workers' rights and they are treated with respect and dignity, and that business relationships are also based on respect and ethical behavior, while being responsible both socially and environmentally.
- **Supplier Quality Manual.** Moreover, TUBACEX Group collaborates with suppliers in the development of their capacities and continuous improvement in order to guarantee that the products manufactured for their customers comply with the technical and competitiveness requirements demanded by the market and regulating the relationship through the Supplier Quality Manual.
- **Code of Conduct.** Finally, this commitment is also extended through TUBACEX Code of Conduct which guarantees that TUBACEX relationships with suppliers and clients are conducted according to the guidelines.

2. Material aspects:

- **Create stable relationships with suppliers.** TUBACEX maintains long-term contractual relations with suppliers to develop capabilities and ensuring services are offered with the highest quality standards. On the one hand, it is worth highlighting long-term contracts with suppliers of raw materials or maintenance, due to their direct impact on the end product. It is worth mentioning that 92% of TUBACEX relationships with suppliers are recurring. On the other hand, the fact that 66% of the suppliers are based in the Basque Country demonstrates the company's commitment to the region, the generation of wealth and indirect employment.

- **Hire suppliers who respect Human Rights.** All TUBACEX Group's suppliers are committed to the Purchasing Policy from the moment in which they receive an order or a framework agreement. Thus, the corporate function and the suppliers are aware of this policy and the principles included. In particular, according to the code TUBACEX's supply chain should strictly comply with:
    - Act 31/1995 of November 8, on Occupational Health and Safety, as well as any other local, regional and national law applicable to the scope where the company operates.
    - General labor standards for industry prohibit the employment of child labor or forced labor by suppliers.
    - Safety regulation for Tubacex Group CONTRACTORS.
    - Any other legal Regulation promoted or accepted by the Spanish Government and/or by local or international bodies, which impact on the safety of personnel working for Tubacex Group.

Moreover:

- Suppliers may not be involved in any form of discrimination for any reason (race, gender, color, religion, military affiliation etc.).
- Suppliers should foster an environment that allows for an easy flow of communication from the workforce to the Management without fear of reprisal or persecution.
- Suppliers will comply with all applicable local safety regulations including but not limited to appropriate PPEs, training and equipment safety.
- Suppliers shall observe and adopt Tubacex Group quality, safety and environmental policy.

If the supplier is deemed to have breached any of the applicable laws, Tubacex Group will terminate commercial activity with the supplier as soon as possible. Tubacex Group will only select those suppliers who not only prove the desired combination of quality, commercial competitiveness and innovation, but also, and even more importantly, those suppliers who do so in strict compliance with the applicable laws and fostering a positive, safe and ethical workplace. As well as offering competitive costs, to become a TUBACEX's supplier, compliance with the applicable Quality certifications (ISO 9000) as well as OHSAS (18000) and environmental standards (ISO 14000) is also required. Furthermore, suppliers must meet the technical standards more specific to the sector where the products they manufactured are marketed (API, Nuclear, etc.). Likewise, suppliers approved to the Panel of TUBACEX's suppliers must adopt the suppliers' quality manual as well as the purchasing policy (documentation available and made public on the company's website).

3. Risks identified:

TUBACEX has classified suppliers according to their impact on the end product. Therefore, class A suppliers are first tier suppliers with direct impact on the end product, such as suppliers of nickel, molybdenum, scrap, etc. Class B suppliers are the second tier and provide service to plants to ensure correct operation and guarantee the supply (e.g.: maintenance); and finally, Class C offering services directly related to the end product.

TUBACEX has prepared a Panel of suppliers which facilitates access to more than one supplier per category to prevent any risk generated by dependency on a single supplier, in particular for suppliers in Class A (due to their relevance for the end price and turnover).

4. Indicators

Percentage of new suppliers selected according to environmental criteria

All suppliers with environmental impact are certified to ISO 14000.

Number of suppliers and % assessed according to environmental criteria. Number of suppliers identified as high environmental impact. Current and potential impact identified in the supply chain

Due to its industrial nature TUBACEX hires suppliers of oils and chemicals which demand correct waste handling. In particular, the number of suppliers identified as high environmental impact is:

- Suppliers of oils and chemicals: 8
- Scrap suppliers: 7

Suppliers who have violated the freedom of association of their employees

As a result of the Code of Conduct extension to its suppliers, TUBACEX has not identified any violation of the freedom of association of employees by any supplier as well as any other right covered by the ILO.

Percentage of new suppliers selected according to social criteria and suppliers identified as high social impact

Suppliers selected according to these criteria include especial employment centers where TUBACEX has been collaborating for many years (work clothes, destruction of office materials cleaning, etc.) which amount to 6 suppliers classed as EEC.

Clients

TUBACEX’s commercial structure is designed to optimize client experience in three major profiles focused on: the client, the product and the plant. Furthermore, each sales channel has a differentiated strategy in place to bring products and services closer, with personnel dedicated to the needs of each client’s segment.

1. Available policies and manuals:

- **Commercial policy.** Tubacex Group’s Commercial Policy includes the action guidelines to be followed in the commercial structure by the Marketing and Sales team in relation to the products supplied, sales channels, prices, promotion, contributions and legal matters.
- **Management Processes.** TUBACEX's process map is oriented to meet our clients’ needs. Thus, two in five key processes are managed by the Marketing and Sales departments: i.e.: the corporate Sales process and Client Satisfaction Process. The first process sets forth the department operation: from data collection to define product and market strategy, to the sales process closure. It also includes instructions for the corporate process deployment.

2. Material aspects:

- **Customer Satisfaction.** TUBACEX management processes are built to meet and anticipate to the needs of our clients while fulfilling in this way our mission to become a global supplier of tubular solutions. In particular, the company has in place a Customer Satisfaction process which enables us to measure customer satisfaction, analyze results and launch the relevant action plans to facilitate achieving the targets set in this field. One of these tools is our client satisfaction survey which was launched in 1996, to gather feedback on global assessment, as well as different service related matters (quality, communication, deliveries, etc.) which are part of the Commercial department follow-up indicators.

  As well as satisfaction surveys, the company has other sources of information such as: claims, complaints and suggestions; client visit records, Lesson Learned after collaborating in large relevant projects or orders; Voice of Customer sessions oriented to listen to our clients and understand first hand their needs and expectations. Different instruments are used to allow TUBACEX to maintain a constant dialog with customers, based on transparency and trust as prescribed in the Group's communication policy.

- ***Promoting quality in the organization:*** The company has deployed its own operational excellence system, Tubacex Production System, TxPS, which has been instrumental in achieving significant improvements in each area of activity: gradual improvements, radical improvements and maintenance transformation. The aim of this system is to move towards excellence in all plants with a collaborative approach. On the other hand, the company undergoes an EFQM excellence model based self-assessment process to identify its position regarding the fundamental principles of management excellence, detect strengths and define action plans to address any areas of improvement identified. Furthermore, plants are certified to ISO 9001 as well as according to other certifications by end users and transnational bodies (API, Norsok, etc.).

- **Long-lasting customer relations:** Long-lasting customer relations are crucial on a market where business concentrates on a few players and many suppliers from low-cost countries are entering the market. This is directly related to the offer of quality services and products oriented to meet the clients’ needs.

3. Risks identified:

- **Geopolitical and political risks** representing a change of strategy on certain markets.

- **Entry of low-cost competitors.** Involving a product reorganization with a focus on Premium products and a standard competitive structure.

4. Indicators

Description of mechanisms used to listen to concerns related to unethical behavior

Clients are in direct communication with the company, and communication is channeled through the sales offices. In addition to this, the claim procedure and the client satisfaction procedure (surveys) guarantee alternative communication channels where clients may express their concerns regarding different issues, which may include relations with unethical behavior.

Percentage of products or product categories where health and safety impact is assessed

Moreover, and given the growing specialization of Tubacex Group in products aimed at the energy field, certification to the main international standards (ASTM, ASME, Norsok, etc.) guarantees the high quality standards of our products. All our products are produced according to international product standards and production is increasingly monitored by external inspectors.

Non-compliance cases related to health and safety impacts of the products and services categories

All plants are subject to audit according to the standards and official approvals described above. The company has not only renewed official approvals obtained but also increased the volume of certifications year after year.

Requirements of Information and labeling of products and services

All products manufactured by TUBACEX are certified to international standards and include complete information on chemical composition. Regarding use, social and environmental impact, it should be taken into account that these products are aimed at very variable equipment, installations and systems, and therefore, impact is determined by the specific equipment use by the operators of these devices and facilities. From this point of view, our certification procedures are oriented to the correct and responsible use of these products (i.e.: the use of a tube in a nuclear device demands nuclear certification, etc.) by intermediaries or users.

As part of the Marketing and Sales Process, Tubacex offers a value proposal for its products and services which is best suited to meet the needs of the client, including providing advice on the responsible use of products and services. Tubacex's Premium product segment is oriented to high responsibility applications such as gas and oil extraction or power generation industries. As a result, the selection of materials and the solution design are key aspects to know the product limitations and make responsible use of them.

Number of complaints related to breaches of clients' privacy and loss of clients' data received

No specific complaints have been received in this area. TUBACEX has adopted the European data protection regulations.

Fiscal information

Benefits obtained by country

For Benefits obtained by country, refer to the first page of Tubacex S.A. And subsidiaries' Consolidated Financial Statement which provides a breakdown of information related to the Subsidiaries during the financial year ended in December 31, 2018, and in particular, in the Results column.

Tax on benefits paid

Amounts paid as corporate tax in 2018 are included.

Paid taxes	**k€**
Spain	103
Rest of Europe	62
India	15
USA	2
TOTAL	**182**

Public subsidies received

Regarding public subsidies received, refer to Tubacex S.A. and Subsidiaries' Consolidated Financial Statement (Note 24) of the financial year ended in December 31, 2018,

Annex I: Environmental data table

Production in tons (to contextualize the KPI)								
ACVA	TTI LL	TTI AM	IBF	SBER	SALEM	INDIA	TTA	AWAJI
88.790	27.813	17.224		10.571	1.155			

Topic	Standard	Unit	TOTAL	ENVIRONMENTAL KPI								
				ACVA	TTI LL	TTI AM	IBF	SBER	SALEM	INDIA	TTA	AWAJI
Materiales	Materials used. TOTAL	Tons	783.488	89.100	42.756	19.567	6.772	19.467	1.162	-	-	604.664
	Non-renewable	Tons	20.902	-	-	-	-	19.467	1.162	-	273	-
	Renewable	Tons	2.874	-	-	-	2.826	-	-	-	48	-
	Recycled input materiales used	%	52	-	-	-	52	-	-	-	-	-
	Reclaimed products	%	240	56	-	-	200	-	-	-	-	40
ENERGY	302-1 Energy consumption within the organization	Joules	1.397.168.701.469.650	992.019.895.200.000	220.273.556.400.000	184.875.249.600.000	-	220.476	49.177	-	-	-
	Electricity	Joules	549.997.334.311.581	317.167.171.200.000	149.883.750.000.000	57.275.412.965.893	23.401.000.000.000	106.585	19.674	19.153	276	2.270.000.000.000
	Heating	Joules	9.401.190.422	-	-	-	-	113.891	29.503	-	72	9.401.046.956
	302-3 Energy intensity	Joules	29.826.043.070	11.172.653.398	7.919.805.717	10.733.583.929	-	21	5	-	-	-
	Electricity	Joules	12.286.412.306	3.572.104.642	5.388.981.771	3.325.325.881	-	10	2	-	-	-
	Heating	Joules	14	-	-	-	-	11	3	-	-	-
	Reduction of energy consumption	Joules	7.577	-	-	-	-	1.117	6.428	33	-	-
WATER	Water consumpsion by source. TOTAL	m^3	2.498.162	14.589	269.331	135.570	74.776	1.983.635	20.261	-	-	-
	Surface water	m^3	233.373	672	232.701	0	-	-	-	-	-	-
	Ground water	m^3	2.037.032	-	-	-	51.597	1.983.635	-	1.800	-	-
	Waste water	m^3	8.777	-	-	-	8.777	-	-	-	-	-
	Municipat water	m^3	230.369	13.917	36.630	135.570	14.402	-	20.261	-	3.574	6.015
	Water sources significantly affected by withdrawal of water	m^3	51.597	-	-	-	51.597	-	-	-	-	-
	Water recycled and reused	%	49.611	100	-	-	49.611	-	-	-	-	-
EMISSIONS	Direct GHG emissions	Tons	53.589	41.540	3.653	6.543	130	45	1.678	-	-	-
	CH4	Tons	-	-	-	-	-	-	-	-	-	-
	CO	Tons	38	-	-	-	37	1	-	-	-	-
	CO2	Tons	53.412	41.540	3.653	6.543	-	-	1.677	-	-	-
	N2O	Tons	63	-	-	-	63	-	-	-	-	-
	COVDM	Tons	-	-	-	-	-	-	-	-	-	-
	NOX	Tons	44	-	-	-	-	43	1	-	-	-
	Particles	Tons	31	-	-	-	31	-	-	-	-	-
	HF	Tons	-	-	-	-	-	-	-	-	-	-
	Energy indirect GHG emissions	Tons	34.598	20.787	9.992	3.818	-	-	-	-	-	-
	CO2	Tons	34.598	20.787	9.992	3.818	-	-	-	-	-	-
	N2O	Tons	-	-	-	-	-	-	-	-	-	-
	Other indirect GHG emissions CO2	Tons	526.560	183.995	163.576	178.990	-	-	-	-	-	-
	CO2	Tons	526.564	183.998	163.576	178.990	-	-	-	-	-	-
	GHG emissions intensity		1.457,52	2,77	6,37	10,99	-	4,21	1.453,30	-	-	-
	Nox, Sox and other significan air emmissions		169.165	136.120	4.094	28.951	-	-	-	-	-	-
	NOx	Kg	199.536	126.214	1.005	27.952	-	42.975	1.390	-	-	-
	Sox	Kg	3.554	3.546	-	-	-	-	8	-	-	-
	Volatile organic compounds (VOC)	Kg	50.637	3.083	309	578	-	97	46.570	-	-	-
	Hazardous air pollutants (HAP)	Kg	1	1	-	-	-	-	-	-	-	-
	Particulate matter (PM)	Kg	6.556	3.275	2.781	421	-	-	79	-	-	-

Topic	Standard	Unit	TOTAL	ENVIRONMENTAL KPI								
				ACVA	TTI LL	TTI AM	IBF	SBER	SALEM	INDIA	TTA	AWAJI
EFFLUENTS AND WASTE	**Water discharge by quality and destinations**	**Tons**	**257.966**	**3.558**	**243.656**	**4.787**	**-**	**5.910**	**54**	**-**	**-**	**-**
	Waste by type and disposal method	**Tons**	**72.040**	**37.404**	**19.634**	**4.151**	**7.842**	**2.955**	**54**	**-**	**-**	**-**
	Reuse		5	-	-	-	-	-	5	-	-	-
	Recyling	Tons	45.859	23.465	16.108	1.994	3.504	775	13	-	-	-
	Incineration. Mass burn		437	-	-	-	-	437	-	-	-	-
	Deep well injection		3.921	-	-	-	3.921	-	-	-	-	-
	Landfill	Tons	22.294	13.939	3.526	2.157	417	1.743	36	477	-	-
	Transport of hazardous waste		**1.256.890**	**1.249.260**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7.630**
	Transported	kg	2.298.447	1.249.260	-	-	-	994.360	54.350	477	-	-
	Exported	kg	1.249.260	1.249.260	-	-	-	-	-	-	-	-
	Treated	kg	477	-	-	-	-	-	-	477	-	-
SUPPLIER ENVIRONMENTAL ASSESMENT	**New suppliers that were screened using environmental criterio**	**%**	**200**	**-**	**-**	**-**	**-**	**100**	**100**	**-**	**-**	**-**
	Negative environmental impacts in the supply chain and actions taken	**Absolute number**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Number of suppliers assessed for environamental impacts	Absolute number	82	-	-	-	70	-	12	-	-	-
	Number of suppliers identified as having significant actual and potencial negative environmanetal impact	Absolute number	20	-	-	-	14	-	6	-	-	-
	Significant actual and potencial negative environmental impacts identified in the supply chain	Absolute number	5	-	-	-	5	-	-	-	-	-
	Percentaje of suppliers identified as having significant actual and potential negative environmental impacts with wich improvements were agreed upon as a result of assesssment	Absolute number	-	-	-	-	6	-	-	-	-	-

Notes

1. Trading companies are not included as their activity has no environmental impact.

2. Energy consumption figures include direct and indirect consumption.

3. Raw material consumption in Spain shown in the table includes materials with environmental impact due to carbon footprint.

Annex II.- Reference table of Law 11/2018 on Non-Financial Information requirements and Global Reporting Initiative contents (GRI indicators)

Contents of Law 11/2018 on Non-Financial Information Statement	Standard used	Report page	Remarks
Brief description of the Group's business model including business environment, organization and structure, markets where it operates, objectives and strategies, and main factors and trends which may impact future evolution.	GRI Disclosure 102-2 Activities, brands, products, and services	1-3	
	GRI Disclosure 102-4 Location of operations		
	GRI Disclosure 102-6 Markets served		
	GRI Disclosure 102-7 Scale of the organization		
	GRI Disclosure 102-15 Key impacts, risks, and opportunities		
Policies applied by the Group, including due diligence procedures used to identify, assess, prevent and mitigate significant risks and impacts, and for verification and control, as well as any measures adopted.	GRI Disclosure 103-2 The management approach and its components	1, 5, 8, 9, 13, 19, 23, 25, 27, 31, 32, 34	
	GRI Disclosure 103-3 Evaluation of the management approach		
Main risks related to these issues associated with the Group's activities, and among them, as and when appropriate and proportionate, trade relations, products or services which have a negative impact on these fields, and how these risks are managed by the Group, explaining the procedures used to detect and assess such risks according to reference national, Spanish and international frameworks for each matter. This must include information on impacts identified along with an impact breakdown, and in particular providing an account of the short, medium and long term risks.	GRI Disclosure 102-11 Precautionary Principle or approach	5-7	
	GRI Disclosure 102-15 Key impacts, risks, and opportunities		
	GRI Disclosure 201-1 Financial implications and other risks and opportunities due to climate change		
Current and visible impact of corporate activities on the environment and on health and safety, if any.	GRI Disclosure 102-15 Key impacts, risks, and opportunities	9	
	GRI Disclosure 102-29 Identifying and managing economic, environmental, and social impacts		
· Environmental Assessment or Certification Procedures	GRI Disclosure 102-11 Precautionary Principle or approach	9-10	
	GRI Disclosure 102-29 Identifying and managing economic, environmental, and social impacts		
· Resources allocated to environmental risk prevention	GRI Disclosure 102-29 Identifying and managing economic, environmental, and social impacts	8-11	
· Precautionary Principle application	GRI Disclosure 102-11 Precautionary Principle or approach	8-10	
· Provisions and guarantees for environmental risks		11	
Measures to prevent, reduce or repair carbon emissions that seriously affect the environment, taking into account any form of air pollution specific to an activity, including noise and light pollution.	GRI Disclosure 103-2 The management approach and its components (GRI 302 and 305)	10-11	Trading companies are not included as their activity has no environmental impact.
Measures to prevent, recycle, reuse, recover and eliminate waste. Actions to combat food waste.	GRI Disclosure 306-3	9-10	Trading companies are not included as their activity has no environmental impact.

Contents of Law 11/2018 on Non-Financial Information Statement	Standard used	Report page	Remarks
Water consumption and water supply according to local limitations.	GRI Disclosure 303-5 Water consumption	10 37-38	Trading companies are not included as their activity has no environmental impact.
Consumption of raw materials and measures adopted to improve the efficiency of their use.	GRI Disclosure 103-2 The management approach and its components	11	Raw material consumption data are only reported for Acerálava and TTI.
Energy. Direct and indirect consumption; measures implemented to improve energy efficiency. Use of renewable energies.	GRI Disclosure 103-2 The management approach and its components (GRI 302 Energy)	10 37-38	Trading companies are not included as their activity has no environmental impact.
	GRI Disclosure 302-3 Energy intensity		
Greenhouse gas (GHG) emissions.	GRI Disclosure 305-1 Direct (Scope 1) GHG emissions	37-38	Trading companies are not included as their activity has no environmental impact.
	GRI Disclosure 305-2 Energy indirect (Scope 2) GHG emissions		
	GRI Disclosure 305-4 GHG emissions intensity		
Measures adopted to adapt to the consequences of Climate Change	GRI Disclosure 102-15 Key impacts, risks, and opportunities	8-11 37-38	Trading companies are not included as their activity has no environmental impact.
	GRI Disclosure 103-2 The management approach and its components		
Reduction goals established voluntarily in the medium and long term to reduce GHG emissions and means implemented for that purpose		11-12	
Measures to protect or restore biodiversity.	N A	N A	N A
Impact caused by activities or operations in protected areas.	N A	N A	N A
Policies applied by the Group, including due diligence procedures used to identify, assess, prevent and mitigate significant risks and impacts, and for verification and control, as well as any measures adopted.	GRI Disclosure 103-2 The management approach and its components	13	
	GRI Disclosure 103-3 Evaluation of the management approach		
Main risks related to these issues associated with the Group's activities, and among them, as and when appropriate and proportionate, trade relations, products or services which have a negative impact on these fields, and how these risks are managed by the Group, explaining the procedures used to detect and assess such risks according to reference national, Spanish and international frameworks for each matter. This must include information on impacts identified along with an impact breakdown, and in particular providing an account of the short, medium and long term risks.	GRI Disclosure 102-15 Key impacts, risks, and opportunities	14	
Total number and distribution of employees by gender, age, country and professional qualification	GRI Disclosure 102-7 Scale of the organization	14-15	
	GRI Disclosure 102-8 Information on employees and other workers		
	GRI 405-1. b) Percentage of employees by occupational status for each of the following diversity categories: gender and age group		
Total number and distribution of employment contract types	GRI Disclosure 102-8 Information on employees and other workers	16	
Annual average fixed-term, temporary and part-time contracts by gender, age and professional qualification	GRI Disclosure 102-8 Information on employees and other workers	16	
Number of dismissals by gender, age, country and professional qualifications		16-17	

Contents of Law 11/2018 on Non-Financial Information Statement	Standard used	Report page	Remarks
Average compensation and evolution breakdown by gender, age and professional qualifications or equal value.		15	No information breakdown by professional qualification and by age is provided.
Pay gap		15	
Compensation of equal or average jobs in the company		15	
The average remuneration of directors and executives, including variable remuneration, allowances, compensation, payment to long-term savings systems and any other perception disaggregated by gender		15	
Implementation of right-to-disconnect measures		21	
Employees with disabilities	GRI 405-1. b) Percentage of employees by professional category for each of the following diversity classification (iii. Vulnerable groups).	17	
Working time organization	GRI 102-8. c) The total number of employees by employment contract type (full time or part time) and by gender.	21	
Number of hours lost to absenteeism	GRI 403-2 Types and ratios of work accidents, occupational diseases, days lost to absenteeism and numbers of casualties related (section a)	17	
Measures designed to facilitate the enjoyment of work/life balance and encourage joint responsibility of these by both parents.	GRI Disclosure 103-2 The management approach and its components	21	
Health & Safety at work	GRI Disclosure 103-2 The management approach and its components (GRI 403 Health & Safety)	20	
Work accidents (frequency and severity) broken down by gender		17	Work accidents are not broken down by gender.
Occupational diseases (frequency and severity) broken down by gender		17	
Organization of social dialog, including procedures for informing and consulting staff and negotiating with them.	GRI Disclosure 102-43 Approach to stakeholder engagement (related to trade unions and collective bargaining)	20-21-22	
	GRI Disclosure 403-2 Health and safety matters covered in formal agreements with trade unions		
Percentage of employees covered by collective bargaining agreements by country		18	
Balance of collective agreements, particularly in the field of health and safety at work.		21	The information provided relates exclusively to Spain.
Policies implemented in the field of training	GRI Disclosure 103-2 The management approach and its components (see GRI 404-Training and Education)	18-19	
	GRI Disclosure 404-2 Programs for upgrading employee skills and transition assistance programs		
The total amount of training hours by professional category.		19	Training hours are not broken down by professional category.
Universal accessibility for people with disabilities	GRI Disclosure 103-2 The management approach and its components (GRI 405: Diversity and Equal Opportunity and GRI 406 Non-discrimination)	19	
Measures implemented to promote equal treatment and opportunities between men and women.	GRI Disclosure 103-2 The management approach and its components (GRI 405: Diversity and Equal Opportunity)	19	
Equality Plan	GRI Disclosure 103-2 The management approach and its components (GRI 405: Diversity and Equal Opportunity and GRI 406 Non-discrimination)	13-19	

Contents of Law 11/2018 on Non-Financial Information Statement	Standard used	Report page	Remarks
Measures implemented to promote employment	GRI Disclosure 103-2 The management approach and its components (GRI 401 Employment)	18-19	
Protocols against sexual and gender-based harassment		19	
Integration and universal accessibility for people with disabilities.	GRI Disclosure 103-2 The management approach and its components (GRI 405: Diversity and Equal Opportunity and GRI 406 Non-discrimination)	19	
Policy against all types of discrimination and, where appropriate, management of diversity	GRI Disclosure 103-2 The management approach and its components (GRI 405: Diversity and Equal Opportunity and GRI 406 Non-discrimination)	13	
Policies applied by the Group, including due diligence procedures used to identify, assess, prevent and mitigate significant risks and impacts, and for verification and control, as well as any measures adopted.	GRI Disclosure 103-2 The management approach and its components GRI Disclosure 103-3 Evaluation of the management approach	23	
Main risks related to these issues associated with the Group's activities, and among them, as and when appropriate and proportionate, trade relations, products or services which have a negative impact on these fields, and how these risks are managed by the Group, explaining the procedures used to detect and assess such risks according to reference national, Spanish and international frameworks for each matter. This must include information on impacts identified along with an impact breakdown, and in particular providing an account of the short, medium and long term risks.	GRI Disclosure 102-15 Key impacts, risks, and opportunities	23-24	
Application of due diligence procedures in the field of human rights.	GRI Disclosure 103-2 The management approach and its components (GRI 412 Human Rights Assessment)	23-24	
Prevention of the risks of violation of human rights and, where appropriate, measures to mitigate, manage and repair possible abuses.	GRI Disclosure 103-2 The management approach and its components (GRI 412 Human Rights Assessment)	23	
Claims on cases of violation of human rights	GRI Disclosure 102-17 Mechanisms for advice and concerns about ethics (claims and complaints received and solutions) GRI Disclosure 103-2 The management approach and its components (GRI 412 Human Rights Assessment)	24	
Promotion and compliance with the provisions of the fundamental conventions of the International Labor Organization (ILO) related to respect for freedom of association and the right to collective bargaining, the elimination of discrimination in employment and occupation, the elimination of forced or compulsory labor, and the effective abolition of child labor.		24	
Policies applied by the Group, including due diligence procedures used to identify, assess, prevent and mitigate significant risks and impacts, and for verification and control, as well as any measures adopted.	GRI Disclosure 103-2 The management approach and its components GRI Disclosure 103-3 Evaluation of the management approach	25	
Main risks related to these issues associated with the Group's activities, and among them, as and when appropriate and proportionate, trade relations, products or services which have a negative impact on these fields, and how these risks are managed by the Group, explaining the procedures used to detect and assess such risks according to reference national, Spanish and international frameworks for each matter. This must include information on impacts identified along with an impact breakdown, and in particular providing an account of the short, medium and long term risks.	GRI Disclosure 102-15 Key impacts, risks, and opportunities	26	
Measures implemented to prevent corruption and bribery	GRI Disclosure 103-2 The management approach and its components (GRI 205: Anti-corruption) - If 205-2 is submitted by the company, that indicator also covers this law requirement	25-26	

Contents of Law 11/2018 on Non-Financial Information Statement	Standard used	Report page	Remarks
Measures to combat money laundering	GRI Disclosure 103-2 The management approach and its components (GRI 205: Anti-corruption)		
Contributions to foundations and non-profit organizations	GRI Disclosure 103-2 The management approach and its components (GRI 205: Anti-corruption)	29	
Policies applied by the Group, including due diligence procedures used to identify, assess, prevent and mitigate significant risks and impacts, and for verification and control, as well as any measures adopted.	GRI Disclosure 103-2 The management approach and its components	27	
	GRI Disclosure 103-3 Evaluation of the management approach		
Main risks related to these issues associated with the Group's activities, and among them, as and when appropriate and proportionate, trade relations, products or services which have a negative impact on these fields, and how these risks are managed by the Group, explaining the procedures used to detect and assess such risks according to reference national, Spanish and international frameworks for each matter. This must include information on impacts identified along with an impact breakdown, and in particular providing an account of the short, medium and long term risks.	GRI Disclosure 102-15 Key impacts, risks, and opportunities	27	
	GRI Disclosure 204-1 Proportion of spending on local suppliers	29	
Impact of company's activity on local communities and territories	GRI Disclosure 413-1 Operations with local community engagement, impact assessments, and development programs	29-30	
Relationships maintained with players at local community level and modalities of dialog with them	GRI Disclosure 102-43 Approach to stakeholder engagement (related to the community)	30	
Partnership and sponsoring activities	GRI Disclosure 102-13 Membership of associations	30	
Inclusion in the purchasing policy of social issues, gender equality and environmental issues	GRI Disclosure 103-2 The management approach and its components (GRI 308 and GRI 414)	31	
Consideration of suppliers' and subcontractors' social and environmental responsibility in relations with suppliers and subcontractors	GRI Disclosure 103-2 The management approach and its components (GRI 308 and GRI 414)	31-32	
	GRI Disclosure 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	33	
Supervision systems and audits and their results		32	
Measures for consumer health and safety	GRI Disclosure 103-2 The management approach and its components (GRI 416: Customer Health and Safety)	35	
Claims systems, complaints received and their resolution	GRI Disclosure 103-2 The management approach and its components (GRI 416: Customer Health and Safety)	35	
	GRI Disclosure 418-1 Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data	36	
Benefits obtained by country		36	
Tax on benefits paid			
Public subsidies received		36	

Deloitte.

Deloitte, S.L.
Ercilla, 24
48011 Bilbao
España

Tel: +34 944 44 70 00
www.deloitte.es

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INDEPENDENT ASSURANCE REPORT OF THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018 OF TUBACEX, S.A. AND SUBSIDIARIES

To the Shareholders of Tubacex, S.A.,

In accordance with Article 49 of the Spanish Commercial Code, we have performed the verification, with a scope of limited assurance, of the Consolidated Non-Financial Information Statement (hereinafter NFIS) for the year ended 31 December 2018 of Tubacex, S.A. and subsidiaries (hereinafter "the Group"), which forms part of the Consolidated Directors' Report.

The Consolidated Director´Report includes information, additional to that required by current Spanish corporate legislation relating to non-financial reporting, that was not the subject matter of our verification. In this regard, our work was limited solely to verification of the information identified in Annex II "Reference table of Law 11/2018 on Non-Financial Information requirements and Global Reporting Initiative contents (GRI indicators)" included in the Consolidated Directors' Report.

Responsibilities of the Directors

The preparation and content of the NFIS are the responsibility of the Board of Directors of Tubacex. The NFIS was prepared in accordance with the content specified in current Spanish corporate legislation, and with the criteria of the selected Global Reporting Initiative Standards for sustainability reporting (hereinafter "GRI Standards"), as well as other criteria described as indicated for each matter Annex II "Reference table of Law 11/2018 on Non-Financial Information requirements and Global Reporting Initiative contents (GRI indicators)" of the Consolidated Directors' Report.

These responsibilities of the Board of Directors also include the design, implementation and maintenance of such internal control as is determined to be necessary to enable the NFIS to be free from material misstatement, whether due to fraud or error.

The directors of Tubacex are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies International Standard on Quality Control 1 (ISQC 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement team consisted of professionals who are experts in reviews of non-financial information and, specifically, in information about economic, social and environmental performance.

Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, which refers exclusively to 2018. The information relating to previous years was not subject to the verification provided for in current Spanish corporate legislation.

We conducted our review in accordance with the requirements established in International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information, currently in force, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines published by the Spanish Institute of Certified Public Accountants on attestation engagements regarding non-financial information statements.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance provided is also substantially lower.

Our work consisted in requesting information from management and the various units of Tubacex that participated in the preparation of the NFIS, reviewing the processes used to compile and validate the information presented in the NFIS, and carrying out the following analytical procedures and sample-based review tests:

- Meetings held with Group personnel to ascertain the business model, policies and management approaches applied, and the main risks relating to these matters, and to obtain the information required for the external review.

- Analysis of the scope, relevance and completeness of the contents included in the 2018 NFIS, based on the materiality analysis carried out by the Group and described in section 2 of the NFIS "Materiality", considering the contents required under current Spanish corporate legislation.

- Analysis of the processes used to compile and validate the data presented in the 2018 NFIS.

- Review of the information relating to risks and the policies and management approaches applied in relation to the material matters identified in the 2018 NFIS.

- Verification, by means of sample-based tests, of the non-financial information relating to the contents included in the NFIS for 2018 and the appropriate compilation thereof based on the data furnished by Tubacex's information sources.

- Obtainment of a representation letter from the directors and management.

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Basis for a conclusion with qualifications

As a result of the procedures performed and the evidences obtained, even if Tubacex has presented the information required by the current mercantile regulations on the subject of non-financial information in relation to average salaries disaggregated by sex and wage gap, sufficient information has not been obtained to be able to verify the reported information in this regard.

Additionally, average remunerations are not broken down by professional classification nor in terms of age, as required in section 49 of the Commercial Code.

Conclusion with qualifications

Based on the procedures performed and the evidence obtained, except for the effect of the matters described in the paragraph "Basis for a conclusions with qualifications", no matter has come to our attention that causes us to believe that the NFIS of the Group for the year ended 31 December 2018 was not prepared, in all material respects, in accordance with the content specified in current Spanish corporate legislation and with the criteria of the selected GRI standards, as well as other criteria described as indicated for each matter in Annex II "Reference table of Law 11/2018 on Non-Financial Information requirements and Global Reporting Initiative contents (GRI indicators)" included in the Consolidated Directors' Report.

Use and Distribution

This report has been prepared in response to the requirement established in corporate legislation in force in Spain and, therefore, it might not be appropriate for other purposes or jurisdictions.

DELOITTE, S.L.

Pablo Mugica

Februrary 27, 2019

ANNEX 2

2017 CONSOLIDATED AUDITED ANNUAL ACCOUNTS

Tubacex, S.A. and Subsidiaries composing the TUBACEX Group

Auditor's Report Consolidated Financial Statements for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards Consolidated Directors' Report

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

Deloitte, S.L.
Ercilla, 24
48011 Bilbao
España

Tel: +34 944 44 70 00
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Tubacex, S.A.,

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tubacex, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

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

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Key Audit Matters

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

Goodwill of Sber

Description

As described in Note 3-a to the accompanying consolidated financial statements, under EU-IFRSs, the Group is required, every year, to test for impairment the goodwill of the Austria cash-generating unit recognised in the consolidated financial statements, which amounted to EUR 18 million at 31 December 2016 and which was written down by EUR 16 million at 31 December 2017. This impairment test was significant for our audit due to the materiality of the goodwill balance in the consolidated balance sheet to the consolidated financial statements and to the industrial and commercial transformation that the Tubacex Group has been implementing at this cash-generating unit in recent years.

The valuation process performed by management in this connection requires the use of significant judgements and estimates, both when determining future cash flow discounting as the valuation method and when considering the key assumptions established for the method in question (use of correcting factors to adapt the comparable data considered, use of discount rates, etc.).

Accordingly, this matter was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, substantive procedures to assess the reasonableness of the estimates made by Group management. In this connection, we obtained and analysed the impairment test prepared by Group management, and verified the clerical accuracy thereof and the appropriateness of the valuation method used. To this end, we analysed the consistency of the cash flow projections with external data and historical information on the component.

In this connection, we analysed the reasonableness of the main assumptions used (basically those relating to cash flow forecasts, the terminal value and discount rates) and the consistency thereof with the actual data relating to the performance of the component, and performed a sensitivity analysis on the key assumptions identified.

We involved our in-house valuation experts in order to evaluate, mainly, the methodology employed by the Group in the analysis conducted, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows.

Lastly, we evaluated whether the disclosures included in Note 7 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

IBF SpA brand

Description

As explained in Note 3-a to the accompanying consolidated financial statements, under EU-IFRSs, the Group is required to annually test for impairment the brand it has recognised in the consolidated financial statements for EUR 11 million, which arose from the acquisition of IBF SpA in 2015, as it is an intangible asset with an indefinite useful life.

The measurement of the Italy brand requires the use of significant judgements and estimates by management, both when determining the sales-based royalty method as the valuation method and when considering the key assumptions established for the method in question (relating to future sales forecasts, the royalty rate, the terminal value, the discount rates plus associated risk premium and the growth rate).

Accordingly, this matter was considered to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, substantive procedures to assess the reasonableness of the estimates made by Group management. In this connection, we obtained and analysed the valuation prepared by Group management, and verified the clerical accuracy thereof and the appropriateness of the valuation method used. For this purpose, we analysed whether the future sales forecasts considered in the analysis carried out were consistent with the budgets approved by the Board of Directors and with external data and historical information on the component.

In this connection, we analysed the reasonableness of the main assumptions used (basically those relating to the future sales forecasts, the royalty rate, the terminal value, the discount rates and the growth rate) and the consistency thereof with the actual data relating to the performance of the component, and performed a sensitivity analysis on the key assumptions identified. We involved our in-house valuation experts in order to evaluate, mainly, the methodology employed by the Group in the analysis conducted, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows.

Lastly, we evaluated whether the disclosures included in Note 7 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Recoverability of deferred tax assets

Description

The consolidated balance sheet as at 31 December 2017 includes EUR 70 million of deferred tax assets, of which EUR 42 million relate to tax assets (mainly tax loss and tax credit carryforwards) that are recoverable in the context of the Spanish tax group headed by the Parent, EUR 15 million relate to tax assets that are recoverable in Austria and EUR 4 million relate to tax assets that are recoverable in Italy.

At the end of the year Group management prepares financial models to assess the recoverability of the tax losses recognised, taking into consideration new legislative developments and the most recently approved business plans.

We identified this matter as key in our audit, since the preparation of these models requires a significant level of judgement, largely in connection with the projections of business performance, which affect the estimate made of the recoverability of the tax assets.

Procedures applied in the audit

Our audit procedures included, among others, reviewing the aforementioned financial models -including analysis of the consistency of the actual results obtained by the different divisions with the results projected in the previous year's models-, obtaining evidence of the approval of the budgeted results included in the current year's models and the tax legislation applicable where the deferred tax assets are recognised, and evaluating the reasonableness of the projections for future years and the consistency of these projections with those used in other areas of estimation, such as those used in the assessment of impairment of financial investments relating to Group companies and associates or in the assessment of the use of the going concern basis of accounting. We also involved our internal experts from the tax area in the analysis of the reasonableness of the tax assumptions considered on the basis of the applicable legislation.

Lastly, we assessed whether Note 22 to the accompanying consolidated financial statements contains the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Recognition of revenue by reference to stage of completion

Description	Procedures applied in the audit
In 2017 a specific contract was entered into for the delivery of 600 km of pipes over three years. The sales related to this contract represent 12% of the Group's total consolidated sales at 31 December 2017. As indicated in Note 3-p to the consolidated financial statements, the Group applies IAS 11 for the recognition of the revenue associated with this contract by reference to the stage of completion, on the basis of the actual costs incurred as a percentage of total budgeted costs. This revenue recognition method was a key matter in our audit, as it affects a significant amount of total revenue and requires Group management to make significant estimates relating mainly to the expected outcome of the contract, the amount of costs to be incurred at the end of the work, the measurement of the work completed in the period and the accounting for variations in the initial contract, all of which impact the revenue recognised in the year. These judgements and estimates are made by the persons in charge of performing the work or services contracts, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied.	Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process of recognising revenue by reference to stage of completion, and tests to verify that the aforementioned controls operate effectively, involving our technology and systems specialists for those controls related to information systems. We obtained and analysed the contract entered into, obtaining an adequate understanding of its clauses, and analysed the proper application of IAS 11. We also performed an analysis of the budgeting of the total contract costs, i.e. of the costs incurred at 31 December 2017 and the variances with respect to the initially budgeted costs. We also performed a sampling of inventories at year end in order to analyse the stage of completion of the contract, verifying early collections against supporting documentation and analysing whether the revenue is duly recognised on the basis of the actual costs incurred as a percentage of the total budgeted costs, taking into account the deferred tax impact. Notes 13 and 14 to the accompanying consolidated financial statements contain the disclosures and information relating to the Group's sales revenue recognised by reference to stage of completion.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the other information is defined in the audit regulations in force, which establish two distinct levels of review thereof:

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report, or, as the case may be, that the consolidated directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the rest of the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the other information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the non-financial information described in section a) above is presented in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and Audit Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Parent's audit committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix 1 to this auditor's report. This description, which is on pages 9 and 10, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2018.

Engagement Period

The (Annual/Extraordinary) General Meeting held on 25 May 2016 appointed us as auditors for a period of three years from the year ended 31 December 2016.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of three years, with subsequent renewal for one year, and have therefore been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2012.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Pablo Múgica
Registered in ROAC under no. 18694

27 February 2018

Appendix 1 to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Parent's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

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

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32).
In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 AND 2016

(Thousands of euros)

ASSETS	Notes	31/12/17	31/12/16 (*)
NON-CURRENT ASSETS			
Intangible assets	Note 7	51.906	71.633
Goodwill		12.108	28.383
Other intangible assets		39.798	43.250
Property, plant and equipment	Note 8	272.435	267.621
Investments accounted for using the equity method	Note 10	346	637
Derivative financial instruments	Note 12	-	138
Non-current financial assets	Note 11	6.638	7.371
Deferred tax assets	Note 22	70.520	54.882
Total non-current assets		401.845	402.282
CURRENT ASSETS			
Inventories	Note 13	248.576	221.213
Trade and other receivables	Note 14	95.603	79.640
Trade receivables for sales and services		75.466	62.808
Other receivables		18.863	14.658
Current tax assets		1.274	2.174
Derivative financial instruments	Note 12	274	541
Current financial assets	Note 11	47.673	103.999
Other current assets		4.938	766
Cash and cash equivalents	Note 15	107.267	43.360
Total current assets		504.331	449.519
TOTAL ASSETS		906.176	851.801

EQUITY AND LIABILITIES	Notes	31/12/17	31/12/16 (*)
EQUITY	Note 16		
Shareholders' equity-			
Registered share capital		59.840	59.840
Share premium		17.108	17.108
Revaluation reserve		3.763	3.763
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method		203.667	203.160
Treasury shares		(7.850)	(7.850)
Profit (Loss) for the year attributable to the Parent		(19.710)	507
Other equity instruments	Note 16-f	790	279
		257.608	276.807
Valuation adjustments			
Translation differences		3.653	11.653
Hedges		(4.029)	(1.815)
	Note 16-g	(376)	9.838
Equity attributable to the Parent		257.232	286.645
Non-controlling interests		24.583	26.915
Total equity		281.815	313.560
NON-CURRENT LIABILITIES			
Long-term provisions	Note 17	3.108	3.125
Deferred income		1.416	1.497
Non-current financial liabilities		81.661	165.580
Bank borrowings	Note 18	79.717	164.650
Derivative financial instruments	Note 12	1.944	930
Employee benefit obligations	Note 21	8.663	11.693
Deferred tax liabilities	Note 22	16.689	16.574
Other non-current financial liabilities	Note 19	8.131	9.145
Total non-current liabilities		119.668	207.614
CURRENT LIABILITIES			
Short-term provisions	Note 17	5.581	4.251
Current financial liabilities		333.829	192.231
Debt instruments and other marketable securities	Note 18	95.636	48.610
Bank borrowings	Note 18	233.101	140.998
Derivative financial instruments	Note 12	5.092	2.623
Trade and other payables	Note 20	165.283	134.145
Payable to suppliers		131.015	100.807
Other payables		34.268	32.654
Current tax liabilities	Note 22	-	684
Total current liabilities		504.693	330.627
TOTAL EQUITY AND LIABILITIES		906.176	851.801

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of financial position as at 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR 2017 AND 2016

(Thousands of euros)

	Notes	2017	2016 (*)
Continuing operations:			
Revenue	Note 6	490.361	494.029
+/- Changes in inventories of finished goods and work in progress	Note 13	20.383	9.262
In-house work on non-current assets	Note 3-b	4.211	4.784
Procurements	Note 13	(274.719)	(268.025)
Other operating income	Notes 11 & 24	6.505	13.132
Staff costs	Note 25	(121.444)	(121.543)
Other operating expenses	Note 24	(99.357)	(96.692)
Depreciation and amortisation charge and impairment losses on non-current assets	Notes 7 & 8	(54.197)	(32.425)
Profit (Loss) from operations		**(28.257)**	**2.522**
Finance income	Note 11	2.185	1.038
Finance costs	Notes 11 & 18	(11.233)	(8.750)
Exchange differences		(1.786)	(393)
Financial loss		**(10.834)**	**(8.105)**
Result of companies accounted for using the equity method	Note 10	8	29
Loss before tax		**(39.083)**	**(5.554)**
Income tax	Note 22	14.975	3.991
Loss for the year from continuing operations		**(24.108)**	**(1.563)**
Profit/Loss from discontinued operations		-	-
Consolidated loss for the year		**(24.108)**	**(1.563)**
Profit (Loss) attributable to:			
The Parent		(19.710)	507
Loss attributable to non-controlling interests		(4.398)	(2.070)
Earnings per share (in euros)			
- Basic	Note 23	(0,1518)	0,0039
- Diluted	Note 23	(0,1518)	0,0039

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of profit or loss for 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousands of euros)

	Notes	2017	2016 (*)
Consolidated loss for the year		**(24.108)**	**(1.563)**
Items that may be reclassified subsequently to profit or loss:			
Income and expense recognised directly in equity			
Measurement of cash flow hedging instruments	**Notes 12 & 16**	(2.441)	(926)
Tax effect	**Notes 12, 16 & 22**	683	259
Translation differences	**Note 16-g**	(8.000)	1.674
Transfers to profit or loss			
Measurement of cash flow hedging instruments	**Notes 12 & 16**	(634)	(503)
Tax effect	**Notes 12, 16 & 22**	178	141
Other comprehensive income		**(10.214)**	**645**
Total comprehensive income for the year		**(34.322)**	**(918)**
Profit (Loss) attributable to:			
The Parent		(29.924)	1.152
Loss attributable to non-controlling interests		(4.398)	(2.070)

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of comprehensive income for 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 33). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR 2017 AND 2016

(Thousands of euros)

	Equity attributable to the Parent											
	Shareholders' equity											
	Registered share capital	Share premium	Revaluation reserve	Other reserves	Treasury shares	Net profit (loss) for the year	(Interim dividend)	Other equity instruments	Translation differences	Cash flow hedges	Non-controlling interests	Total equity
Balance at 31 December 2015 (*)	**59.840**	**17.108**	**3.763**	**198.112**	**(7.850)**	**8.413**	**-**	**-**	**9.979**	**(786)**	**28.910**	**317.489**
Total comprehensive income	-	-	-	-	-	**507**	-	-	**1.674**	**(1.029)**	**(2.070)**	**(918)**
Other changes in equity												
Distribution of dividends (Notes 4 and 16-h)	-	-	-	-	-	(3.365)	-	-	-	-	-	(3.365)
Transfers between equity items	-	-	-	5.048	-	(5.048)	-	-	-	-	-	-
Inclusion of Tubacex Upstream Technologies S.A. in the scope of consolidation (Note 2-f)	-	-	-	-	-	-	-	-	-	-	80	80
Other changes	-	-	-	-	-	-	-	-	-	-	(5)	(5)
Long-term incentive plan (Notes 3-k, 3-l and 16)	-	-	-	-	-	-	-	279	-	-	-	279
Balance at 31 December 2016 (*)	**59.840**	**17.108**	**3.763**	**203.160**	**(7.850)**	**507**	**-**	**279**	**11.653**	**(1.815)**	**26.915**	**313.560**
Total comprehensive income	-	-	-	-	-	**(19.710)**	-	-	**(8.000)**	**(2.214)**	**(4.398)**	**(34.322)**
Other changes in equity												
Distribution of dividends (Notes 4 and 16-h)												
Transfers between equity items	-	-	-	507	-	(507)	-	-	-	-	-	-
Inclusion of Tubacex Awaji Thailand in the scope of consolidation (Note 2-f)	-	-	-	-	-	-	-	-	-	-	2.066	2.066
Long-term incentive plan (Notes 3-k, 3-l and 16)	-	-	-	-	-	-	-	511	-	-	-	511
Balance at 31 December 2017	**59.840**	**17.108**	**3.763**	**203.667**	**(7.850)**	**(19.710)**	**-**	**790**	**3.653**	**(4.029)**	**24.583**	**281.815**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of changes in equity for 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR 2017 AND 2016

(Thousands of euros)

	Notes	2017	2016 (*)
Cash flows from operating activities			
Loss for the year before tax		(39.083)	(5.554)
Adjustments for:			
Depreciation and amortisation charge and impairment losses on non-current assets	Notes 7 & 8	54.197	32.425
Exchange (gains)/losses		1.786	393
Changes in write-downs and provisions	Notes 13.14, 17 & 21	3.743	254
Finance income		(2.185)	(1.038)
Finance costs		11.233	8.750
Share of results of companies accounted for using the equity method	Note 10	(8)	(29)
Changes in equity instruments – share-based payment transactions	Note 16	511	279
In-house work on non-current assets	Note 3-b	(4.211)	(4.784)
Gains or losses on disposals of other items of property plant and equipment and intangible assets	Notes 7, 8 & 24	1.003	(779)
Recognition of government grants in profit or loss	Note 24	(81)	(301)
		26.905	**29.616**
Changes in working capital:			
Inventories	Note 13	(37.774)	6.715
Trade and other receivables	Note 14	(2.200)	15.631
Other current assets		(3.905)	189
Trade and other payables	Note 20	31.731	11.300
Other current liabilities	Notes 17 & 21	(1.705)	(1.587)
Other non-current assets and liabilities		(743)	(2.894)
		(14.596)	**29.354**
Other cash flows from operating activities:			
Interest paid		(10.104)	(8.750)
Income tax recovered/(paid)	Note 22	-	(282)
Net cash flows from operating activities (I)		**2.205**	**49.938**
Cash flows from investing activities:			
Proceeds from disposal of non-current assets	Notes 7 & 8	-	4.230
Proceeds from disposal of financial assets	Note 11	41.021	3.275
Interest received		2.185	102
Investments accounted for using the equity method	Note 10	(8)	-
Acquisition of property, plant and equipment	Note 8	(28.994)	(33.369)
Acquisition of intangible assets	Note 7	(6.826)	(3.543)
Acquisition of other financial assets	Notes 11 & 12	-	(5.281)
Investments in business units	Note 2-f	249	-
Net cash flows from investing activities (II)		**7.627**	**(34.586)**
Cash flows from financing activities:			
Proceeds from issue of bank borrowings	Note 18	148.653	141.159
Proceeds from issue of other borrowings	Note 18	95.636	48.610
Repayment of bank borrowings	Note 18	(140.998)	(173.770)
Repayment of other borrowings	Note 18	(48.610)	(24.951)
Repayment or settlement of other financial liabilities	Notes 12 & 19	(606)	(3.537)
Dividends paid	Note 16-h	-	(3.365)
Net cash flows from financing activities (III)		**54.075**	**(15.854)**
Effect of foreign exchange rate changes (IV)		-	-
Net increase/(decrease) in cash and cash equivalents (I+II+III+IV)		**63.907**	**(502)**
Cash and cash equivalents at 1 January	Note 15	43.360	43.862
Cash and cash equivalents at 31 December	Note 15	**107.267**	**43.360**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of cash flows for 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

Tubacex, S.A. and Subsidiaries composing the TUBACEX Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

1. Description and activities of the Parent

Tubacex, S.A. ("the Parent") was incorporated as a public limited liability company for an indefinite period of time on 6 June 1963 and its registered office is in Llodio (Álava).

Its company object is, inter alia, the manufacture and sale of special seamless (basically stainless) steel tubes and any other type of product related to the iron and steel industry or other similar activities in which it is decided to engage. However, on 1 January 1994 the Parent became a holding company and head of the Tubacex Group, without engaging in any production activities, since these are carried on by its subsidiaries.

Tubacex, S.A. engages mainly in the holding of ownership interests (see Appendix) and in the rendering to Group companies of certain centralised and leasing services that are invoiced to them.

Tubacex, S.A. is the Parent of a Group made up of the subsidiaries listed in the accompanying Appendix, which is an integral part of this Note. Tubacex, S.A. and its Subsidiaries ("the TUBACEX Group" or "the Group") engage mainly in the manufacture and sale of special seamless (basically stainless) steel tubes.

The shares of Tubacex, S.A. are listed on the Spanish Stock Market Interconnection System.

2. Basis of presentation of the consolidated financial statements

a) *Basis of presentation*

The consolidated financial statements for 2017 of the TUBACEX Group were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the accompanying consolidated financial statements are summarised in Note 3.

- Taking into account all the mandatory accounting principles and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.

- So that they present fairly the TUBACEX Group's consolidated equity and consolidated financial position at 31 December 2017 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The TUBACEX Group's consolidated financial statements for 2016 were approved by the shareholders at the Annual General Meeting of TUBACEX on 24 May 2017. The 2017 consolidated financial statements of the Group and the 2017 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Board of Directors of TUBACEX considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of International Financial Reporting Standards (IFRSs)

The TUBACEX Group's consolidated financial statements for the year ended 31 December 2017 were prepared in accordance with IFRSs, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, taking into account all the mandatory accounting principles and rules and measurement bases with a material effect, as well as the alternative treatments permitted by the relevant standards in this connection.

In 2017 the following mandatory interpretations and standards already adopted by the European Union came into force, which, where applicable, were used by the Group in preparing these consolidated financial statements:

(1) *New standards, amendments and interpretations mandatorily applicable in 2017*

Approved for use in the European Union		**Obligatory application in annual reporting periods beginning on or after:**
Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016)	Clarification of the principles established for recognition of deferred tax assets for unrealised losses.	1 January 2017
Amendments to IAS 7, Disclosure Initiative (issued in January 2016)	Various clarifications in relation to disclosures (financial transactions, liquidity, etc.). .	1 January 2017

The Group has applied the aforementioned standards and interpretations since they became effective on 1 January 2017, which did not have a significant impact on its accounting policies. In this connection, set forth below is a reconciliation of the carrying amount of the liabilities arising from financing activities, disclosing separately the changes that generate cash flows from those that do not.

	01/01/17	**Cash flows**	**No impact on cash flows**			**31/12/17**
			Change in fair value	**Reclassifications**	**Other (*)**	
Non-current bank borrowings	164,650	-	-	(84,933)	-	79,717
Current bank borrowings	189,608	54,525	-	84,933	(329)	328,737
Total liabilities arising from financing activities	**354,258**	**54,525**	**-**	**-**	**(329)**	**408,454**

(*) Corresponding to the change in accrued finance costs payable at the end of 2017 and 2016 (see Note 18).

(2) New standards, amendments and interpretations that will be mandatorily applicable in annual reporting periods subsequent to the calendar year that began on 1 January 2017.

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union:

Approved for use in the European Union		**Obligatory application in annual reporting periods beginning on or after:**
IFRS 15, Revenue from Contracts with Customers (issued in May 2014)	New revenue recognition standard (supersedes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018
Amendments to IFRS 4, Insurance Contracts (issued in September 2016)	Provide entities within the scope of IFRS 4 with the option of applying IFRS 9 ("overlay approach") or the temporary exemption therefrom.	1 January 2018
Improvements to IFRSs, 2014-2016 cycle	Minor amendments to a series of standards.	1 January 2018
Clarifications to IFRS 15 (issued in April 2016)	Focus on identifying performance obligations, principal versus agent considerations, licensing and determining whether a license is satisfied at a point in time or over time, as well as certain clarifications to the transition requirements.	1 January 2018
IFRS 16, Leases (issued in January 2016)	It introduces a single lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with an impact similar to that of current finance leases (supersedes IAS 17 and the associated interpretations).	1 January 2019

Not yet approved for use in the European Union		**Obligatory application in annual reporting periods beginning on or after:**
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	Various amendments to the standard on share-based payment transactions in relation to vesting conditions on cash-settled share-based payment transactions, amendments to the terms and conditions of plans, net settlements, etc.	1 January 2018
Amendments to IAS 40, Transfers of Investment Property (issued in December 2016)	Guide to investment property transactions when there is a change in use.	1 January 2018
IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued in December 2016)	Establishes the date of the transaction for the purpose of determining the exchange rate to use in transactions with advance consideration in a foreign currency.	1 January 2018
IFRIC 23, Uncertainty Over Income Tax Treatments (issued in June 2017)	Clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over whether the relevant taxation authority will accept a tax treatment used by an entity.	1 January 2019
Amendments to IFRS 9, Prepayment Features with Negative Compensation (issued in October 2017)	The amendments permit the measurement at amortised cost of certain financial instruments with prepayment features that allow the payment of an amount that is lower than the unpaid amounts of principal and interest.	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (issued in October 2017)	The amendments clarify that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not used.	1 January 2019
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	Under the proposed amendments, when a change is made to a defined benefit plan (due to amendment, curtailment or settlement), the entity will use current assumptions to remeasure the cost of the services and the net interest for the period following the change to the plan.	1 January 2019
Improvements to IFRSs, 2015-2017 cycle (issued in December 2017)	Minor amendments to a series of standards (IFRS 3, IAS 12 and IAS 23)	1 January 2019
IFRS 17, Insurance Contracts (issued in May 2017)	Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Supersedes IFRS 4.	1 January 2021
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification in relation to the gain or loss resulting from such transactions involving a business or assets.	No set date

The Group has performed an assessment of the impact that the future application of the standards that come into force in 2018 and subsequent years might have, particularly IFRS 15 and IFRS 9, on the consolidated financial statements once they become effective.

IFRS 15, Revenue from Contracts with Customers

The new requirements could give rise to changes in the revenue profile. Specifically, the standard establishes a revenue recognition approach based on five steps: Step 1, identify the contract with the customer; Step 2, identify the separate performance obligations under the contract; Step 3, determine the transaction price; Step 4, allocate the transaction price to the performance obligations in the contract; and lastly Step 5, recognise revenue when (or as) the entity satisfies a performance obligation.

The Group has assessed the application of application of IFRS 15 and does not expect any impact to arise therefrom and, therefore, does not consider it necessary to apply it retrospectively, restating the comparative information.

Due to their characteristics, the sales transactions in the business in which the Group operates, with the exception of a significant contract signed in 2017 (see Notes 3-p., 3-v., 13 and 14), do not follow a normal sales pattern for construction contracts, but correspond to contracts for the delivery of assets at a point in time rather than over several years. Following a case-by-case analysis, it was concluded that effective control over the risks and rewards of ownership of the goods in these contracts is retained until the goods are transferred and, accordingly, the amount of revenue can be measured reliably and it is considered likely to be received and the transaction costs incurred or to be incurred can be measured reliably. Sales warranties cannot be purchased separately. Consequently, the Group will continue to recognise warranties and insurance contracts in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No supplementary warranties are provided in addition to those required by law which, under IFRS 15, are considered to be service warranties and should, therefore, be recognised as a separate performance obligation to which the Group must allocate a portion of the asset's selling price.

With respect to the contract signed in 2017, which based on its nature is considered to be a construction contract, the directors have analysed the differences existing between the application of IAS 11 and IFRS 15 and concluded that there is no accounting impact.

Except where it necessary to provide more extensive disclosures on the its revenue transactions, no other significant impacts on the Group's financial situation or profit or loss are expected as a result of applying this standard.

IFRS 9, Financial Instruments

IFRS 9 will supersede IAS 39 for reporting periods beginning on or after 1 January 2018. There are very significant differences with respect to the current standard for the recognition and measurement of financial instruments. However, the only difference applicable to the Group is that in relation to impairment losses on financial assets, since IFRS 9 requires the application of a model based on the expected credit loss, as opposed to the model in IAS 39 which is based on incurred credit losses. Under this model, the Group will update the expected loss and the changes therein at each reporting date to reflect the changes in credit risk since initial recognition; therefore, it is no longer necessary for an impairment event to have occurred before credit losses are recognised. In addition, future changes in the contractual cash flows of a financial liability leading to the derecognition of the financial liability must be recognised as a change in estimate of the contractual cash flows of the liability, maintaining the original effective interest rate and adjusting its carrying amount to enable the recognition of a balancing entry in profit or loss.

The Group measures its assets at amortised cost since the objective of the business model is to hold assets in order to collect the contractual cash flows. The Group intends to apply IFRS 9 retrospectively, without restating the comparative information. In this connection, in accordance with the new impairment model based on expected credit loss over the following twelve months, the Group considers that the financial assets measured at amortised cost will be subject to impairment, taking into consideration the facts and circumstances that existed at that date as indicated below in accordance with a preliminary assessment, since it is still completing its expected credit loss model, and this would result in a reduction in the amount of reserves at 1 January 2018 (in thousands of euros) of:

	Balance at 31/12/17	**Estimated credit loss at 12 months (%) (*)**	**Estimated credit loss at 12 months at 31/12/17**
Trade receivables (Note 14)	93,100	0.02% - 3.77%	1,764
Amounts to be billed for work performed (Note 14)	2,503	3.77%	94
Current financial assets (Note 11)	32,069	0.02%-0.06%	13
Trade and other receivables (Note 14)	15,604	3.77%	588
Cash	107,267	0.02%-0.06%	43
TOTAL			**2,502**

(*) The estimate was made taking into consideration the credit rating of the counterparties, issued by agencies of recognised prestige, considering the credit rating of the customers and financial institutions the Group works with as ranging from B to AAA. In the estimation of the expected loss on the amounts to be billed for work performed, since an individual credit rating is not available for the customer, the Group used the rating of the country in which it carries on its activities as a valid referenice and opted to estimate an expected loss of 3.7% of the total amount to be billed.

IFRS 16, Leases

IFRS 16 will come into force on 1 January 2019 and will supersede IAS 17 and the current associated interpretations. The main development of IFRS 16 is that it introduces a single lessee accounting model in which all leases will be recognised in the statement of financial position with an impact similar to that of the existing finance leases (depreciation of the right-of-use asset and a finance cost for the amortised cost of the liability will be recognised). The Group is assessing the total effect that application of IFRS 16 will have on the consolidated financial statements. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments under these leases; however, certain information is disclosed, such as operating lease obligations, in Note 9 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16 and, therefore, the Group will recognise a right-of-use asset and the related liability unless they qualify as low-value or short-term leases under IFRS 16. It is considered that the new requirements of IFRS 16 will not have a significant impact on the Group's consolidated financial statements on the basis of the leases in force at 31 December 2017 (see Note 9 in relation to the minimum lease payments contracted by the Group for the leases currently in force). It is not possible to provide a reasonable estimate of the financial effect until this analysis has been completed. Management does not intend to apply this standard early and, at the date of this publication, no decision has yet been made as to the option that will be applied at the date of transition.

c) Functional currency

These consolidated financial statements are presented in euros, since this is the currency of the main economic area in which the Group operates. Foreign operations are accounted for in accordance with the policies established in Note 2-f.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with a functional currency other than the euro at 31 December 2017 and 2016, including intra-Group balances eliminated from the accompanying consolidated statement of financial position, is as follows:

	Equivalent value in thousands of euros			
	31/12/17		31/12/16	
Currency	Assets	Liabilities	Assets	Liabilities
Brazilian real	931	1,446	380	334
Thai baht	6,763	2,224	-	-
US dollar	56,664	11,165	59,583	8,040
Indian rupee	49,006	11,113	43,305	4,297
Total	**113,364**	**25,948**	**103,268**	**12,671**

At 31 December 2017, the Parent had a balance payable of EUR 3.4 million in foreign currencies.

The detail of the main foreign currency balances of subsidiaries is as follows:

	Equivalent value in thousands of euros			
	31/12/17		31/12/16	
Nature of the balances	Assets	Liabilities	Assets	Liabilities
Intangible assets	10,896	-	10,558	-
Property, plant and equipment	41,145	-	40,272	-
Non-current financial assets and deferred tax	1,942	-	2,782	-
Inventories	25,993	-	20,083	-
Trade and other receivables	15,997	-	10,712	-
Other current financial assets	503	-	912	-
Cash and cash equivalents	16,888	-	17,949	-
Non-current liabilities	-	8,436	-	5,626
Current liabilities	-	17,512	-	7,045
Total	**113,364**	**25,948**	**103,268**	**12,671**

d) Responsibility for the information and use of significant estimates

The information in these consolidated financial statements is the responsibility of the Board of Directors of TUBACEX.

In the consolidated financial statements of the TUBACEX Group for 2017 estimates were occasionally made. The most significant estimates relate to:

- The assumptions used to measure goodwill and intangible assets with indefinite useful lives (see Notes 2-f and 7).

- The assumptions used to evaluate the recoverability of deferred tax assets (see Note 22).

- The estimate of the total costs associated with the construction contract awarded in 2017 and the costs incurred during the year to determine the stage of completion at 31 December 2017 (see Notes 13 and 14).

- The useful life of the intangible assets and property, plant and equipment (see Notes 7 and 8).

- The evaluation of possible impairment losses on certain assets (see Notes 7, 8, 10, 11 and 14).

- The analysis of net realisable values, the assessment of write-downs due to the slow movement of inventories and the evaluation of possible losses on the committed order backlog (existence of onerous contracts) (see Note 13).

- The amount of provisions for contingencies and charges and the probability of occurrence and amount of any liabilities of undetermined amount or contingent liabilities (see Note 17).

- Achievement of covenants in relation to certain financing received (see Note 18).

- The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 21).

- The fair value of certain equity instruments (see Notes 3-l and 16-f), and fulfilment of the conditions for them to be derecognised (see Note 3-e).

Although these estimates were made on the basis of the best information available on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated statements of profit or loss. Due to the uncertainty involved in any estimate based on future expectations in the current economic environment, differences might arise between projected and actual results. The importance of these estimates should be taken into account in any interpretation of the accompanying consolidated financial statements and, in particular, in relation to the recovery of goodwill, property, plant and equipment and recognised tax assets.

At 31 December 2017, the directors of the TUBACEX Group considered that the Group did not have any material contingent liabilities other than those disclosed herein.

e) Comparative information

As required by IAS 1, the information relating to 2017 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2016 and, accordingly, it does not constitute the TUBACEX Group's statutory consolidated financial statements for 2017.

With a view to performing an appropriate comparison between the consolidated financial statements for 2017 and 2016, the changes in the scope of consolidation described in Note 2-f should be taken into account.

f) Basis of consolidation

Scope of consolidation

The accompanying consolidated financial statements include the Parent and the companies over which it exercises control, where control is power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investor's returns.

The accompanying consolidated financial statements for the year ended 31 December 2017 were prepared from the separate accounting records at that date of Tubacex, S.A. (the Parent -see Note 1-) and of the subsidiaries listed in the Appendix to these notes to the consolidated financial statements. All of the subsidiaries have the same reporting period except for the Indian companies Tubacex Prakash India Pvt Ltd and Tubacex India Pvt Ltd, whose reporting period ends on 31 March. The reporting period of these companies was adjusted for consolidation purposes to end on 31 December.

Changes in the scope of consolidation

The most significant changes in the scope of consolidation in 2017 were as follows:

Tubacex Awaji Thailand Investment

On 27 September 2016, the Tubacex Group entered into an agreement with the Japanese company Awaji Materia to create a company to manufacture special stainless steel components in its plant in Thailand. This transaction gave rise to a capital increase of USD 3.3 million subscribed by the Tubacex Group through its Italian subsidiary IBF SpA, representing an ownership interest of 60% in the new company held by IBF SpA (in which Tubacex, S.A. holds a 65% ownership interest). As consideration for the remaining 40%, Awaji Materia contributed the remaining assets to the aforementioned company.

It is envisaged that the new company, Tubacex Awaji Thailand, which currently has 40 employees, will bill EUR 20 million to EUR 25 million in three years through the manufacturing of fittings. These are standard products which complement the current range of fittings which the Group offers through its subsidiaries Tubacex Taylor Accesorios S.A. and IBF SpA, thereby providing industrial synergies.

The transaction is part of the growth strategy envisaged in TUBACEX's 2013-2017 Strategic Plan, and will enable the Group, inter alia, to supplement its product range and increase its presence in the Asian market.

The detail of the assets acquired and the liabilities recognised in the consolidated financial statements at the date on which control was obtained, once the conclusions of the independent valuers' reports on the measurement thereof had been considered, is as follows:

Nature of the balances	23/01/17	
	Assets	Liabilities
Non-current assets		
Property, plant and equipment (Note 8)	1,579	-
Current assets		
Inventories (Note 13)	239	-
Trade and other receivables	138	-
Cash and cash equivalents	3,349	-
Current liabilities		
Other liabilities	-	139
Total	**5,305**	**139**

This company has been fully consolidated in the consolidated financial statements since 23 January 2017, the date on which the directors consider control was obtained. The effect that the consolidation of this company from 1 January 2017 would have had on the consolidated financial statements is not material.

The most significant changes in the scope of consolidation in 2016 were as follows:

Tubacex Upstream Technologies, S.A.

Tubacex Upstream Technologies, S.A. was incorporated on 14 January 2016 through a strategic alliance with the engineering firm Energy Frontier Solutions, S.L. Its company object is the manufacture and marketing of special steel tubes (particularly for the upstream oil and gas industry), or metal tubes in general, as well as any other accessories and products specific to the metal industry. Its object also includes the preparation and execution of plans and projects for the creation, promotion, development and investment and ownership of equity interests, in general, in relation to industrial, commercial and services companies or businesses.

It has share capital of EUR 1 million, divided into one million shares of EUR 1 each. On 13 January 2016, the Tubacex Group paid EUR 920 thousand to acquire 920,000 shares granting Tubacex, S.A. the right to 80% of the economic benefits, as stipulated in the shareholders agreement.

The company's registered office is in Leioa (Vizcaya). At 31 December 2017, this company was fully consolidated, and the net assets contributed were not material to the consolidated financial statements taken as a whole.

Tubacex Services Solutions, S.L.U. - Creation of new companies and corporate restructuring within the Group

Creation of new companies

The Tubacex Group created the following companies in 2016:

- Tubacex Services Solutions Austria GmbH
- Tubacex Services Solutions Do Brasil Participacoes Ltda
- Tubacex Advance Solutions, S.L.U.
- Tubacex Services Solutions Holding, S.L.U.

At 31 December 2017, these subsidiaries were fully consolidated, and the net assets contributed were not material to the consolidated financial statements taken as a whole.

Corporate restructuring within the Group

A restructuring took place within the Group, with no impact on these consolidated financial statements, in order for the following Group retailers to be included in the new commercial vehicle focusing on the distribution business, under the new company Tubacex Services Solutions Holding, S.L.:

- Comercial de Accesorios y Tubos Especiales, S.A.U. (Cotubes) In 2016 this company changed its name to Tubacex Services Solutions, S.L.U.
- Tubos Mecánicos, S.A.U. and its subsidiary Tubos Mecánicos Norte, S.A.U.
- Tubacex America, Inc.
- Metaux Inox Services, S.A.S.
- Tubacex India Pvt Ltd

The contribution of these companies by Tubacex, S.A. to Tubacex Services Solutions Holding, S.L.U. (wholly-owned by Tubacex S.A.) was made in full through subscription to the capital increase carried out by Tubacex Services Solutions Holding, S.L.U. in December 2016 through the non-monetary contribution of the shares. This reorganisation did not have any impact on the accompanying consolidated financial statements.

This restructuring process is part of the operational development of the strategy to become a global tubular solutions provider as envisaged in TUBACEX's 2013-2017 Strategic Plan, enabling the Group to offer a wide range of products and strengthen its presence in all geographical markets.

Consolidation methods

a) Subsidiaries

"Subsidiaries" are defined as companies over which TUBACEX exercises control.

Control exists where the Group has:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

The Group will reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Where the Group holds less than a majority of voting rights, it has power over the investee when the voting rights are sufficient to afford it the practical ability to direct the relevant activities unilaterally. When assessing whether the Group's voting rights are sufficient to give it power, it considers all facts and circumstances, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of an investee shall begin from the date the Group obtains control of the investee and cease when the Group loses control of the investee.

The Group shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The Group shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments shall be made to the subsidiaries' financial statements to ensure conformity with the Group's accounting policies.

Intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

b) Associates and joint arrangements

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture (unlike a joint operation described in 2-f.c)) is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are accounted for in these consolidated financial statements using the equity method. Under the equity method, an investment in an associate or joint venture is initially recognised at cost and the carrying amount is increased or reduced to recognise the investor's share of the profit or loss of the investee after the acquisition date. If the Group's share of losses of an associate or a joint venture equals or exceeds its interest therein, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or joint venture is accounted for using the equity method from the date on which it becomes an associate or joint venture.

Profits and losses resulting from transactions between the Parent and an associate or joint venture are recognised in the Group's consolidated financial statements on the basis of the interest in the associate or joint venture not held by the Group.

c) Joint operations and unincorporated temporary joint ventures (UTEs)

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When a Group company carries on its activities within the framework of a joint operation, the Group, as joint operator, shall recognise in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

When a Group company enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party. At 31 December 2017 and 2016, the Tubacex Group did not have any joint operations or ventures of this nature.

Business combinations

The Group is considered to carry out a business combination when the assets acquired and liabilities assumed constitute a business. The Group accounts for each business combination by applying the acquisition method, which entails identifying the acquirer, determining the acquisition date -which is the date on which control is obtained- and cost of acquisition, recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and, lastly, recognising and measuring any goodwill or gains on bargain purchases.

The costs incurred upon acquisition are recognised as an expense in the year in which they are incurred and, accordingly, they are not considered to be an increase in the cost of the business combination.

The identifiable assets acquired and the liabilities assumed are measured at fair value at the acquisition date and non-controlling interests are measured at the proportional part of the interest in the identifiable net assets.

In the case of step acquisitions, the acquirer revalues the existing investment at fair value on the date control is obtained, and recognises the related gain or loss in the consolidated statement of profit or loss.

In addition, transactions between the Parent and non-controlling interests (transactions subsequent to obtaining control in which the Parent acquires further ownership interests from non-controlling interests or disposes of investments without losing control) are accounted for as transactions with equity instruments.

The Group recognises goodwill at the acquisition date as the excess of:

- the aggregate of (i) the consideration transferred measured at acquisition-date fair value; (ii) the amount of any non-controlling interest; and (iii) in a business combination achieved in stages, the acquisition-date fair value of the Group's previously held equity interest, over

- the net amount of identifiable assets acquired and liabilities assumed.

Where this difference is negative, the Group repeats the analysis of all the elements in order to determine whether the acquisition was made in highly advantageous conditions, in which case the difference is recognised in profit or loss under "Gains On Bargain Purchases Arising from Consolidation" in the accompanying consolidated statement of profit or loss.

Translation of financial statements denominated in foreign currency

The financial statements in foreign currencies were translated to euros using the year-end exchange rate method, which consists of translating all the assets, rights and obligations to euros at the closing exchange rates and the statement of profit or loss items at the average exchange rates for the year.

The difference between the amount of the foreign companies' equity translated at historical exchange rates (except for the profit or loss for the year, which is translated as stated above) and the net asset value arising from the translation of the assets, rights and obligations at the closing exchange rates from 1 January 2004 is presented in equity under "Translation Differences" in the consolidated statement of financial position, net of the portion of the difference that relates to non-controlling interests, which is recognised under "Equity - Non-Controlling Interests".

g) Correction of errors

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2016.

h) Going concern principle of accounting

At 31 December 2017, the Group had a working capital deficiency of EUR 0.3 million and a loss of EUR 19,710 thousand mainly as a result of valuation adjustments in 2017 that did not have an impact on cash (see Notes 7 and 11). The directors prepared these consolidated financial statements under the going concern basis of accounting since they consider that there are factors that eliminate the doubt as to whether the Group can continue to operate as a going concern such as its good financial position with "Cash and Cash Equivalents" of EUR 107,267 million, "Current Financial Assets" amounting to EUR 47,673 thousand and undrawn credit facilities amounting to EUR 48,353 thousand (see Note 18). In addition, "Current Liabilities" in the accompanying consolidated statement of financial position includes EUR 65 million relating to a loan from the European Investment Bank (EIB), with a maximum maturity of ten years, which, irrespective of its accounting classification, is not expected to be claimable at short term. The reason for the loan's classification as current is the non-compliance with a clause which, under accounting legislation, requires the loan to be recognised at short term. At the date of authorisation for issue of these consolidated financial statements, the European Investment Bank had granted a waiver with new financial conditions compared to those initially negotiated that the directors expect to fulfil in the short- and medium-term and that evidence that the borrowings of EUR 65 million recognised as a current liability are not claimable (see Notes 18 and 31).

There are also other additional factors such as the Group's positive outlook with a significant backlog at the various CGUs, an equity position of EUR 281,815 thousand and a market capitalisation of EUR 445 million at 31 December 2017.

3. Accounting policies

The principal accounting policies used by the TUBACEX Group in preparing its consolidated financial statements as at 31 December 2017 and 2016 were as follows:

a) Intangible assets-

Goodwill-

Goodwill arising on consolidation is calculated as explained in Note 2-f.

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3-c and, where appropriate, are written down.

An impairment loss recognised for goodwill must not be reversed in a subsequent period.

In 2017 a significant valuation adjustment was made to the goodwill linked to the Austria component as a result of the industrial and commercial transformation that the directors are implementing (see Note 7).

Greenhouse gas emission allowances-

When acquired from third parties, emission allowances are recognised at cost less any accumulated impairment losses when entitlement thereto arises for the Group. Emission allowances received for no consideration or at a price substantially lower than their fair value are recognised at fair value. The difference between this value and any consideration given is recognised with a credit to "Deferred Income - Government Grants".

The recognition in profit or loss of the amounts presented under "Other Operating Income" in the accompanying consolidated statement of profit or loss is determined on the basis of the emissions made in proportion to the total emissions forecasted for the complete period for which they were allocated (see Note 24).

Emission allowances are not amortised. The Group derecognises emission allowances using the weighted average cost formula.

Works of art-

"Works of Art" includes works of art owned by the Group which are measured at cost less any related impairment losses arising as a result of periodic appraisals by independent valuers. In 2015 the works of art were appraised by an independent expert, who concluded that the amounts at which they were measured were correct. Also, in 2016 four works of art were sold generating gains (see Note 8), which, in the directors' opinion, is additional evidence that these assets are not overstated.

Works of art are not depreciated since it is considered that they have an indefinite useful life and do not suffer decline in value from the passage of time. This characteristic applies solely to property, plant and equipment in accordance with the applicable legislation. As a result, at 31 December 2017 "Works of Art" was transferred from "Intangible Assets" to "Property, Plant And Equipment" in the accompanying consolidated statement of financial position (see Notes 7 and 8).

Other intangible assets-

Other intangible assets (mostly computer software and related developments) acquired by the Group are presented in the consolidated statement of financial position at cost less any accumulated amortisation and impairment losses.

The Parent's directors recognised at fair value a trademark and an agreement with a strategic customer of the subsidiary IBF SpA, which were recognised in the context of the business combinations performed in 2015 (see Note 7). The Parent's directors consider that the trademark has an indefinite useful life and will perform an impairment test at the end of each year. Similarly, the directors will assess the status of the agreement with the customer at the end of each year.

Research and development expenditure-

The Group recognises research expenditure as an expense in the year in which it is incurred. Development expenditure is capitalised if the following conditions are met:

- It is specifically itemised by project and the related cost can be clearly identified.

- There are sound reasons to foresee the technical success and economic and commercial profitability of the related projects.

Assets thus generated are amortised on a straight-line basis over their years of useful life.

Useful life and amortisation-

Intangible assets with finite useful lives are amortised systematically on a straight-line basis over their estimated years of useful life (between five and ten years).

For these purposes amortisable amount is understood to be acquisition or deemed cost less residual value.

The Group reviews the residual value, useful life and amortisation method applied to the intangible assets at the end of each reporting period. Changes in the criteria initially established are accounted for as a change in estimate.

b) *Property, plant and equipment-*

Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, and the surplus resulting therefrom, in accordance with IFRSs, was treated as part of the cost of these assets, less any related accumulated depreciation and impairment losses.

Cost includes the expenses directly attributable to the acquisition of the assets. In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, direct labour and general manufacturing costs calculated using absorption rates similar to those used for the measurement of inventories).

In 2017 the costs capitalised amounted to EUR 7,487 thousand (2016: EUR 7,957 thousand), of which EUR 4,211 thousand, relating mainly to the capitalisation of working hours of the Group's engineers, were recognised under "In-House Work on Non-Current Assets" (31 December 2016: EUR 4,784 thousand). The remaining EUR 3,276 thousand relate to the capitalisation of invoices for external costs which supported the performance of this work (2016: EUR 3,173 thousand), which are recognised under the same heading in which the expense is recognised (basically under "Other Operating Expenses"). Of the EUR 7,487 thousand capitalised (31 December 2016: EUR 7,957 thousand), EUR 4,880 thousand were recognised under "Intangible Assets" (31 December 2016: EUR 5,815 thousand) (see Note 7) and EUR 2,607 thousand were recognised under "Property, Plant and Equipment" (31 December 2016: EUR 2,142 thousand) (see Note 8).

Property, plant and equipment upkeep and maintenance expenses are recognised in the consolidated statement of profit or loss for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Items of property, plant and equipment are depreciated by allocating the depreciable amount thereof to profit or loss on a systematic basis over their useful life. For these purposes depreciable amount is understood to be acquisition or deemed cost less residual value. The Group calculates the depreciation charge separately for each part of an item of property, plant and equipment whose cost is significant in relation to the total cost of the item.

Items of property, plant and equipment are depreciated on a straight-line basis over their years of useful life, the detail being as follows:

	Years of estimated useful life
Buildings	25 - 48
Plant and machinery	5 - 20
Other fixtures, tools, furniture and other items of property, plant and equipment	5 - 10

The directors of the TUBACEX Group periodically review the residual value and useful life of the various items of property, plant and equipment. Changes in the parameters initially established are accounted for as a change in estimate. The Group did not re-estimate the useful life of its assets in 2017 or 2016.

In general, for non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets. The Group capitalised borrowing costs amounting to EUR 703 thousand to "Property, Plant and Equipment in the Course of Construction" in 2017 (2016: no amount).

The Group assesses and calculates the impairment losses and reversals of impairment losses on its property, plant and equipment in accordance with the methods discussed in Note 3-c.

c) Impairment of assets-

At each reporting date, the TUBACEX Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that these assets might have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

If the recoverable amount of an asset is less than its carrying amount, the related impairment loss is recognised for the difference with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss and a credit to "Property, Plant and Equipment" or "Intangible Assets", as appropriate, in the accompanying consolidated statement of financial position.

Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, except in the case of the impairment of goodwill, which must not be reversed.

In 2017 a significant valuation adjustment was made to the goodwill linked to the Austrian component as a result of the industrial and commercial change that the directors are carrying out (see Note 7).

d) Leases-

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Finance leases

In finance leases in which the Group acts as the lessee, the cost of the leased assets is presented in the consolidated statement of financial position, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that it will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the consolidated statement of profit or loss for the year in which they are incurred using the effective interest method. Contingent rent is recognised as an expense for the period in which it is incurred.

Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment that are owned.

Operating leases

Expenses resulting from operating leases are charged to income in the year in which they are incurred.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

e) Financial instruments-

Trade and other receivables

Trade and other receivables are initially recognised in the consolidated statement of financial position at the fair value of the consideration given, plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph.

The Group recognises an allowance for debts in an irregular situation due to late payment, administration, insolvency or other reasons, after performing a case-by-case collectibility analysis. In 2017 the net change in the allowance for doubtful debts was a reversal of EUR 133 thousand (2016: EUR 290 thousand) (see Note 14).

The Group derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales, factoring of trade receivables in which the Group does not retain any credit or interest rate risk, sales of financial assets under an agreement to repurchase them at fair value and the securitisation of financial assets in which the transferor does not retain any subordinated debt, provide any kind of guarantee or assume any other kind of risk.

At 31 December 2017, the Group derecognised receivables amounting to EUR 43,512 thousand (31 December 2016: EUR 54,217 thousand) as a result of factoring agreements (see Note 2-d). At 31 December 2017, the Group had an unused amount of EUR 41.8 million in relation to these agreements (31 December 2016: EUR 24.7 million).

However, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of bill discounting, with-recourse factoring, sales of financial assets under an agreement to repurchase them at a fixed price or at the selling price plus interest and the securitisation of financial assets in which the transferor retains a subordinated interest or any other kind of guarantee that absorbs substantially all the expected losses. At 31 December 2017, the Group had transferred assets in which substantially all the risks and rewards of ownership are retained, amounting to EUR 23,409 thousand (31 December 2016: EUR 32,451 thousand) (see Note 18).

Financial assets

In accordance with the classification criteria established by IAS 39, the Group classifies its financial assets in the following categories:

(1) Non-current loans and other receivables. Non-current loans and other receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. The amortised cost is understood to be the initial cost minus principal repayments and any reduction for impairment or uncollectibility. The effective interest rate is the discount rate that exactly matches the initial value to all its cash flows.

(2) Held-to-maturity investments. Financial assets with fixed maturity that the Group has the intention and ability to hold to maturity. These investments are also initially recognised at fair value and are subsequently measured at amortised cost.

(3) Held-for-trading financial assets measured at fair value through profit or loss. These assets must meet any of the following conditions:

- They have been classified as held-for-trading because they have been acquired to generate a profit through short-term fluctuations in their prices.

- They are financial derivatives provided that they have not been designated as part of a hedging relationship.

- They have been included in this category of assets since initial recognition.

(4) Available-for-sale financial assets. Available-for-sale financial assets are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or as financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. These assets are measured in the consolidated statement of financial position at market value which, in the case of unlisted companies, is obtained using alternative methods, such as comparison with similar transactions or, if sufficient information is available, by discounting expected future cash flows. Changes in market value are recognised with a charge or credit to "Valuation Adjustments" in the consolidated statement of financial position until the investments are disposed of, at which time the cumulative balance of this heading relating to the investments disposed of is recognised in full in the consolidated statement of profit or loss.

Equity investments in unlisted companies, the market value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost.

The directors of the TUBACEX Group decide on the most appropriate classification for each asset on acquisition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits at banks and other short-term, highly liquid investments with current initial maturity, which are subject to an insignificant risk of changes in value. For these purposes, cash and cash equivalents include investments maturing in less than three months from the date of acquisition.

Trade and other payables

Accounts payable are initially recognised at market value and are subsequently measured at amortised cost using the effective interest rate.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

Bank borrowings and other financial liabilities

Bank borrowings and other financial liabilities are initially recognised at the proceeds received, net of transaction costs, i.e. equivalent to the subsequent application of the amortised cost model, for which the effective interest rate is used. Borrowing costs are recognised in the consolidated statement of profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise (see Note 18).

Derivative financial instruments

Derivative financial instruments are initially recognised in accordance with the criteria described above for financial assets and liabilities. Derivative financial instruments that, pursuant to the criteria described below, do not qualify for hedge accounting are classified and measured as financial assets or liabilities at fair value through profit or loss. Derivative financial instruments that qualify for hedge accounting are initially recognised at fair value plus any transaction costs that are directly attributable to the arrangement thereof or less any transaction costs that are directly attributable to the issue thereof.

The Group uses cash flow hedges.

At the inception of the hedge, the Group designates and formally documents the hedging relationship and the objective and strategy for undertaking the hedge. Hedge accounting only applies when the hedge is expected to be highly effective from inception and in subsequent years in offsetting the changes in the fair value or cash flows of the hedged risk during the life of the hedge (prospective analysis) and the actual effectiveness of the hedge, which can be reliably calculated, is within a range of 80 - 125% (retrospective analysis).

Additionally, in relation to cash flow hedges of forecast transactions, the Group assesses whether such transactions are highly probable and whether they are exposed to changes in cash flows that might ultimately affect profit for the year.

The Group only designates as hedged items the assets, liabilities and highly probable forecast transactions that involve a non-Group third party.

The portion of the gains or losses arising from measurement at fair value of the hedging instrument that is identified as an effective hedge is recognised temporarily as income and expenses in equity. The portion of the hedge considered to be ineffective and the specific gains or losses on or cash flows relating to the hedging instrument, which are excluded from the assessment of the effectiveness of the hedge, are charged or credited to "Finance Costs" or "Finance Income", respectively, in the consolidated statement of profit or loss.

When hedge accounting is discontinued, any cumulative loss or gain at that date recognised under "Valuation Adjustments - Hedges" is retained under this heading until the hedged transaction occurs, at which time the loss or gain on the transaction is adjusted. If a hedged transaction is no longer expected to occur, the gain or loss recognised under the aforementioned heading is transferred to the consolidated statement of profit or loss.

f) Treasury shares-

The treasury shares held by the TUBACEX Group at 31 December 2017 and 2016, which amounted to EUR 7,850 thousand, were recognised at acquisition cost as a reduction of "Equity - Shareholders' Equity" in the consolidated statement of financial position.

g) Inventories-

Inventories are measured at the lower of cost (which comprises all costs of purchase, costs of conversion and direct and indirect costs incurred in bringing the inventories to their present location and condition) and net realisable value (which is the estimated selling price of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale).

The formula used by the Group to calculate the cost of each class of inventories is as follows:

a. Goods held for resale: at acquisition cost calculated using the weighted average cost method.

b. Raw materials and goods held for conversion: at weighted average cost.

c. Work in progress and finished goods: at weighted average cost of raw and other materials used, including costs directly related to the units produced, as well as a systematically allocated portion of the fixed and variable indirect costs incurred during conversion of the inventories.

In the measurement of inventories, costs linked to low production or idle plant were not capitalised.

The cost of inventories is written down where cost exceeds net realisable value. For these purposes, net realisable value is taken to be:

- Raw materials and goods held for processing: replacement cost. However, the Group does not write down raw materials and other supplies if the finished products in which they will be incorporated are expected to be disposed of at or above production cost;

- Goods held for resale and finished goods: estimated selling price less the costs necessary to make the sale;

- Work in progress: the estimated selling price of the related finished goods less the estimated costs of completion and selling costs.

Inventory write-downs and reversals are recognised under "Changes in Inventories of Finished Goods and Work in Progress" and "Procurements" in the consolidated statement of profit or loss for the year.

h) Foreign currency transactions and other obligations-

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2-f. The remaining non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at each year-end, and the positive and negative exchange differences between the exchange rate used and the year-end exchange rate were recognised in income. Foreign currency transactions for which the TUBACEX Group decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3-e.

i) Current/Non-current classification-

In the accompanying consolidated statement of financial position debts are classified on the basis of their maturity at year-end. Current debts are those due to be settled within twelve months and non-current debts are those due to be settled within more than twelve months.

j) Government grants-

The Group companies recognise government grants received as follows:

1) Non-refundable grants, donations and legacies related to assets: These are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.

2) Refundable grants: While they are refundable, they are recognised as a liability.

3) Grants related to income: Grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

Also, grants, donations and legacies received from the shareholders or owners do not constitute income and must be recognised directly in equity, regardless of the type of grant involved, provided that they are not refundable.

k) Employee benefit obligations-

Pension obligations

The Group assumed certain obligations to employees which qualify for classification as defined benefit plans. Another part of these obligations was covered in prior years by arranging a single-premium insurance policy. At 31 December 2017, these obligations amounted to EUR 6,665 thousand (31 December 2016: EUR 6,973 thousand) and were recognised under "Non-Current Liabilities – Employee Benefit Obligations" in the accompanying consolidated statement of financial position (see Note 21).

Hand-over contracts

"Employee Benefit Obligations" in the consolidated statement of financial position as at 31 December 2016 included EUR 205 thousand relating to the present value estimated by the Parent's directors of future payments to be made to employees with hand-over contracts in December 2016. In 2017 the payments related to the hand-over contract liability ended. Accordingly, there is no liability recognised in this connection in the accompanying consolidated statement of financial position (31 December 2016: EUR 205 thousand were recognised in this connection under "Other Payables").

Other long-term employee benefits

At its meeting of 25 March 2013, the Parent's Board of Directors approved a long-term incentive plan for the members of the Group's Management Committee, who are senior executives of the Tubacex Group (see Note 25). The plan consisted of multiannual remuneration linked to the achievement of the main targets included in the 2013-2017 Strategic Plan (see Note 21) and of a share option plan (see Notes 3-l and 16-f). The multiannual remuneration ended on 31 December 2017 and no liabilities were recognised in this connection as no payments thereunder were envisaged (see Note 21). The share option plan ended on 31 December 2015, after which a new plan was approved on 25 May 2016 by the Board of Directors and by the shareholders at the Annual General Meeting, as explained in Notes 3-l and 16-f.

Also, under the obligations assumed by certain subsidiaries to their employees, the Group is obliged to award long-service bonuses upon retirement and other benefits agreed upon with the employees which are paid more than twelve months after the end of the period in which they accrue.

The Group recognised in the accompanying consolidated financial statements as at 31 December 2017 liabilities arising from these obligations amounting to EUR 1,386 thousand under "Non-Current Liabilities - Employee Benefit Obligations" in the consolidated statement of financial position (31 December 2016: EUR 4,212 thousand) (see Note 21), having reversed EUR 2,761 thousand with a credit to "Staff Costs" in the accompanying consolidated statement profit or loss for 2017 (2016: charge of EUR 438 thousand) (see Note 25).

Actuarial gains and losses arising from the Group's defined benefit obligations to its employees are recognised in the consolidated statement of comprehensive income.

l) Share-based payments-

The Group recognises, on the one hand, the goods and services received as an asset or as an expense, depending on their nature, when they are received and, on the other, the related increase in equity, if the transaction is equity-settled, or the related liability if the transaction is settled with an amount based on the value of the equity instruments.

In the case of equity-settled transactions, both the services rendered and the increase in equity are measured at the fair value of the equity instruments granted, by reference to the grant date. However, in the case of cash-settled share-based payments, the goods and services received and the related liability are recognised at the fair value of the latter, with reference to the date on which the requirements for their recognition are met.

In the case of equity-settled share-based payments, this fair value is charged on a straight-line basis over the vesting period to "Staff Costs" in the consolidated statement of profit or loss and with a credit to "Other Equity Instruments" in the consolidated statement of financial position (see Note 16-f), based on the Group's estimate of the shares that will eventually vest.

Fair value is measured using the market prices available on the measurement date, taking into account the characteristics of the related plan. If market prices are not available, generally accepted valuation techniques for measuring financial instruments of this nature are used (see Note 16-f).

The Group recognised in the accompanying consolidated financial statements as at 31 December 2017 EUR 511 thousand (31 December 2016: EUR 279 thousand) in connection with the obligation relating to the incentive plans recognised under "Other Equity Instruments" in the accompanying consolidated statement of financial position.

m) Termination benefits-

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying consolidated financial statements do not include any material provision in this connection since no situations of this nature are expected to arise.

n) Income tax-

On 26 December 2013, the provincial tax authorities of Álava received notification of the intention of the Parent and of certain subsidiaries located in the Basque Country and subject to Álava income tax legislation to file consolidated tax returns from 1 January 2014 in accordance with Álava Income Tax Regulation 37/2013, of 13 December. Tubacex, S.A. is the parent of the tax group. In 2016 Tubacex Advance Solutions, S.L.U., Tubacex Services Solutions Holding, S.L.U. and Tubacex Upstream Technologies, S.A. were included in the scope of consolidation.

Companies that file consolidated tax returns apply the criteria provided for under the Resolution issued by the Spanish Accounting and Audit Institute (ICAC) of 9 October 1997 in order to recognise the accounting effects of the consolidated filing of tax returns (see Note 22).

The other Group companies file separate income tax returns in accordance with the tax regimes applicable to them on the basis of the locations of their registered offices.

The expense for Spanish income tax and similar taxes applicable to the consolidated foreign companies is recognised in the consolidated statement of profit or loss, unless it arises from a transaction whose results are recognised directly in equity, in which case the related tax is also recognised in equity.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities, and any tax loss and tax credit carryforwards.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets recognised for tax loss and tax credit carryforwards and temporary differences are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Pursuant to IFRSs, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities, respectively.

o) Provisions and contingencies-

When preparing the consolidated financial statements the TUBACEX Group's directors made a distinction between:

a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and

b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Group's control.

The consolidated financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Group is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

Provision for emission allowances-

The expenses relating to greenhouse gas emissions are recognised systematically with a credit to the provision for emission allowances which is reversed on delivery of the related allowances granted by public authorities for no consideration or acquired in the market.

The provision is calculated on the basis that the obligation will be settled:

- Firstly, using the emission allowances transferred to the Parent's credit account at the National Emission Allowance Registry under a National Allocation Plan. The expense corresponding to this part of the obligation is determined on the basis of the carrying amount of the emission allowances transferred.

- Then the remaining emission allowances recognised are used. The expense corresponding to this part of the obligation is determined using the average price or weighted average cost of these emission allowances.

- Since the Group has sufficient emission rights, it did not need to recognise any additional provisions for the need to acquire additional rights.

p) Revenue recognition-

Revenue from sales and services rendered is measured at the fair value of the assets or rights received as consideration for the goods and services provided in the normal course of the Group companies' business, net of discounts and applicable taxes.

Sales of goods

Sales of goods are recognised when substantially all the risks and rewards of ownership of the goods have been transferred, the Group does not retain effective control over them, revenue can be measured reliably and is likely to be received and the transaction costs incurred or to be incurred can be measured reliably.

Construction contracts

The Group recognises the income and profit or loss on a construction contract by reference to its estimated stage of completion pursuant to IAS 11, which is calculated on the basis of the cost incurred at the calculation date as a percentage of total budgeted costs for the contract.

Based on the stage of completion, inventories are derecognised with a charge to "Inventories" in the accompanying consolidated statement of financial position (see Notes 13 and 14), while the revenue calculated is recognised with a credit to the consolidated statement of profit or loss and a charge to "Trade and Other Receivables - Trade Receivables for Sales And Services" (see Notes 3-v and 14).

Interest and dividends

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

q) Environmental matters-

The Group recognises environmental investments at acquisition or production cost, net of the related accumulated depreciation, and classifies them by nature in the appropriate non-current asset accounts (see Notes 8 and 29).

Expenses incurred in order to comply with the applicable environmental legislation are classified by nature under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (see Note 29).

Expenses arising from greenhouse gas emissions (Law 1/2005, of 9 March) are recognised at their fair value or at the cost of the rights allocated or acquired with a credit to the related provision account when these gases are emitted during the production process.

r) Consolidated statement of cash flows-

The following terms are used in the consolidated statement of cash flows, which was prepared using the indirect method, with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities. The principal revenue-producing activities of the TUBACEX Group companies and other activities that are not investing or financing activities.

- Investing activities. The acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities. Activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

The Group classifies interest received as cash flows from investing activities and interest paid as cash flows from financing activities. Dividends paid are classified as financing activities.

s) Earnings per share-

Basic earnings per share are calculated by dividing the net profit for the year attributable to the TUBACEX Group by the weighted average number of ordinary shares outstanding in the year, excluding the average number of TUBACEX shares held in the year.

Diluted earnings per share are calculated by dividing the net profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the year, adjusted by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the Parent.

At 31 December 2017 and 2016, basic earnings per share coincided with diluted earnings per share, since there were no potential shares outstanding during the years then ended (see Note 23).

t) Discontinued operations-

A discontinued operation is a sufficiently significant line of business that it has been decided to abandon and/or sell, whose assets, liabilities and net profit or loss can be distinguished physically, operationally and for financial reporting purposes. Income and expenses of discontinued operations are presented separately in the consolidated statement of profit or loss.

No lines of business or business segments were discontinued in 2017 or 2016.

u) Related party transactions-

In all the transactions the Group performs with related parties, it fixes transfer prices in line with the OECD guidelines governing transactions with Group companies and associates. Therefore, the Parent's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future that have not already been recognised.

v) Customer advances-

The difference between revenue recognised on each project (see Notes 3-p, 13 and 14) and the amount billed for the project is recognised as follows:

- If the difference is positive, under "Trade and Other Receivables - Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (deferred billings).

- If the difference is negative, under "Trade and Other Payables - Other Payables" (prebillings).

4. Allocation of the loss of the Parent

The proposed allocation of the loss for the year that the Parent's directors will submit for approval by the shareholders at the Annual General Meeting is as follows (in thousands of euros):

	2017
Prior years' losses	(28,832)
Total	**(28,832)**

5. Financial risk management policy and other

The TUBACEX Group engages in activities that are exposed to various financial risks: market risk (including foreign currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The financial risk management policy adopted by the TUBACEX Group focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's financial performance. The Group uses derivatives to hedge certain risks.

Risk management is controlled by the Group's Financial Department in accordance with the policies approved by the Board of Directors. This Department identifies, assesses and hedges financial risks in close cooperation with the Group's Administration and Financial and Purchasing Departments. The Board of Directors sets policies for global risk management, as well as for specific matters such as foreign currency risk, interest rate risk, liquidity risk, the use of derivative and non-derivative instruments and investment of surplus liquidity.

a) *Market risk-*

a.1) *Foreign currency risk-*

The Group operates in the international market and, therefore, is exposed to foreign currency risk on the transactions performed by it in foreign currencies, particularly the US dollar, and, as a result of the business combination carried out in India in 2015, gradually increased exposure to the Indian rupee is expected as business in that country grows. Foreign currency risk arises on future commercial purchases of raw materials and sales of products in foreign currencies, recognised assets and liabilities and net investments in foreign operations.

At 31 December 2017, had the euro depreciated by 10% against the US dollar, with all other variables remaining unchanged, consolidated loss after tax would have been EUR 9,793 thousand higher (2016: EUR 11,645 thousand lower), without taking into account the hedging policy.

The Group companies use forward foreign currency purchases and sales arranged with banks to hedge the foreign currency risk arising from future commercial purchases of raw materials and sales of products in foreign currencies and recognised assets and liabilities. Foreign currency risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Group's functional currency. The Group's Financial Department is responsible for managing the net position in foreign currencies using external foreign currency forward contracts. Note 12 contains a detail of the forward foreign currency purchase and sale contracts at 31 December 2017 and 2016.

For reporting purposes, Group management designates external foreign currency contracts as foreign currency risk hedges of certain assets, liabilities or future transactions.

The Group has various investments in foreign operations the net assets of which are exposed to foreign currency risk, mainly in US dollars but also in Indian rupees, as a result of the new investment carried out. The Group assumes the foreign currency risk on the net assets of its foreign operations since it is not representative of total assets. At 31 December 2017, net assets held in the US amounted to approximately EUR 45,499 thousand (2016: approximately EUR 51,543 thousand), while the net assets held in India amounted to approximately EUR 37,893 thousand (2016: approximately EUR 39,008 thousand) (see Note 2-c).

a.2) *Commodity price risk-*

In the strategic plan, the directors have set as a key objective the reduction of the impact of commodity price volatility on the consolidated statement of profit or loss, and Group management maintains firm control over the working capital positions, on the basis of the periodic milestones in the production process and billings, in order to minimise the aforementioned volatility impact.

In the case of sales orders negotiated at a variable price, commodity price risk is significantly offset by the implicit hedge provided by the alloy surcharges that the Group passes on to its customers in the selling price, by means of which the Group achieves a highly effective natural hedge.

For sale orders negotiated at a fixed price, since March 2007, the Group has used commodity price futures contracts whose expected maturity is in line with the commencement of production of each order so as to ensure the margins set on arrangement of the sale are obtained.

At 31 December 2017, had the price of nickel risen or fallen by 10%, consolidated purchases would have risen or fallen by approximately EUR 6,992 thousand (2016: approximately EUR 5,755 thousand), an amount that was mitigated by the effect on the sales price of the alloy surcharges.

Additionally, had commodity prices as a whole risen or fallen by 10%, consolidated purchases would have risen or fallen by approximately EUR 13,090 thousand (2016: approximately EUR 9,599 thousand).

In 2017 and 2016 the Group did not hedge any nickel purchases through commodity price futures contracts. However, the Group did make forward purchases (see Note 13) to guarantee prices and hedge the price volatility of this commodity.

Also, the market price of oil implicitly influences the consolidated statement of profit or loss, although the quantification of this impact is not possible. This is a result of the correlation between crude oil prices and the reduction in orders from the oil and gas market, to which the Group supplies its high-value-added products. The strategic plan sets objectives such as value chain growth, increasing product diversification and seeking geographical diversification for the Tubacex Group in order to offset exposure to oil prices and one-off macroeconomic events in the various markets. The transactions detailed in Notes 2-f and 31 are in line with these objectives established in the 2013-2017 Strategic Plan.

a.3) Available-for-sale financial assets-

Market risk arises mainly from investments in investment funds classified as held for sale. The main objective of the Group's investment policy is to maximise returns on investments, while keeping risks under control.

a.4) Investments in works of art-

The Group is also exposed to market risk due to its investments in works of art, which are recognised under "Property Plant and Equipment" (see Notes 7 and 8). The Group periodically commissions independent third party appraisals in order to identify potential unrealised losses, and an appraisal performed in 2015 concluded that the assets were correctly valued. The directors also consider that sales in 2016 show that the carrying amount thereof is lower than their fair value.

b) Credit risk

The Group does not have any material credit risk concentration. In order to hedge the credit risk on sales, the Group implements a prudent hedging policy mainly with credit insurance companies in the event that sales are not made to highly solvent customers.

Derivatives transactions and spot transactions are only carried out with banks with high credit ratings. The Group has policies to limit the amount of risk exposure to any given bank.

At 31 December 2017, the exposure of the Group's assets to this risk was limited mainly to the committed collection rights recognised under "Trade Receivables for Sales and Services", which total EUR 77,800 thousand (2016: EUR 65,708 thousand), of which EUR 2,503 thousand related to amounts to be billed for work performed associated with a construction contract (see Notes 3-v and 14). Impairment losses amounting to EUR 2,451 thousand (2016: EUR 2,900 thousand) were recognised on part of these committed collection rights since the Group considered the recovery thereof as doubtful (see Note 14).

At 31 December 2017, the past-due unimpaired committed collection rights recognised under these headings amounted to approximately EUR 25,408 thousand (2016: approximately EUR 22,276 thousand). Most of these collection rights are less than two months past due and the Group does not consider their recovery to be doubtful, since normal business operations occasionally result in collection delays for reasons other than the risk of default. At the date of formal preparation of these consolidated financial statements the Group had collected most of the receivables which were past due at 31 December 2017.

c) Liquidity risk-

The Group manages liquidity risk prudently by arranging loans with extended maturities and favourable financial conditions, credit lines with extended limits, a portion of which are not drawn down, allowing for the availability of credit in the short term, factoring facilities which help bring forward collections from clients, reverse factoring arrangements which facilitate the management of payments to suppliers, and by diversifying the financing obtained, spreading financial creditors among several banks, the public authority that grants loans from the Spanish Centre for Industrial Technological Development (CDTI), the European Investment Bank, or seeking financing in the Alternative Fixed Income Market (MARF) (see Notes 18 and 19). All of these mechanisms help the Tubacex Group to maintain a good liquidity position.

Current income tax liabilities will be settled approximately seven months after 31 December 2017.

The detail of "Trade and Other Payables", by maturity, is as follows:

	Thousands of euros	
	2017	2016
Within 3 months	147,009	119,137
Between 3 and 12 months	17,499	14,324
After 12 months	775	-
	165,283	**133,461**

d) Cash flow and fair value interest rate risk-

Since the Group does not have any significant interest-earning assets, most of the income and cash flows from the Group's operating activities are largely unaffected by changes in market interest rates.

The Group's interest rate risk arises from current and non-current borrowings. Debt issued at floating rates exposes the Group to cash flow interest rate risk. This risk is hedged using mainly interest rate swaps (see Note 12). Fixed-rate loans expose the Group to fair value interest rate risk.

Current and non-current loans and other interest-bearing liabilities at 31 December 2017 amounted to EUR 408,454 thousand (2016: EUR 354,258 thousand). In 2017 the average balance of current bank borrowings was approximately EUR 259 million (2016: approximately EUR 195 million). Taking into account the balance drawn down, in 2017 a 5% rise or fall in the market interest rates would have given rise to a rise or fall, respectively, of EUR 481 thousand in loss before tax (2016: EUR 437 thousand), without taking into consideration the impact of the derivative.

The fair values of the various consolidated statement of financial position categories do not differ substantially from their carrying amounts at 31 December 2017 and 2016.

6. Segment reporting

a) Basis of segmentation

As described below, the Group is internally organised by operating segments, which are the strategic business units. The strategic business units have various products and services and are managed separately because they require different technology and market strategies.

Information on the Tubacex Group's product portfolio, the markets in which it operates and its general sales conditions is provided on the Group's corporate website.

At 31 December 2017 and 2016, the Group comprised the following operating segments, the main products and services of which are as follows:

- Stainless segment
- Carbon segment

b) Basis and methodology for segment reporting

The performance of the segments is measured on the basis of their profit or loss before tax. Segment profit is used as a measure of performance since the Group considers that this information is the most relevant when assessing the results of certain segments in relation to other groups operating in these businesses.

In accordance with the basis for primary segment reporting set forth in IFRSs (IFRS 8, Operating Segments), the TUBACEX Group considered the two aforementioned business units as operating segments, since it considers that their organisational and management structures and their systems of internal reporting to their managing and executive bodies are such that the risks and returns are affected predominantly by the fact that their operations are performed in one or the other business area, taken to be all of the related products and services. Therefore, through segment reporting, the identifiable components of the TUBACEX Group characterised by being subject to risks and returns of a different nature to those corresponding to other operations carried on in other areas are identified.

In this respect, based on historical experience, the following segments were defined:

- Seamless stainless steel pipes
- Carbon steel pipes

Segment information about the businesses is presented below:

	Thousands of euros					
	Stainless steel pipe segment		Carbon steel pipe segment		Total consolidated	
	2017	2016	2017	2016	2017	2016
Total segment revenue	468,833	475,530	21,528	18,499	490,361	494,029
Depreciation and amortisation charge and impairment losses	(54,004)	(32,217)	(193)	(208)	(54,197)	(32,425)
Inventory write-downs (Note 13)	(3,075)	-	-	-	(3,075)	-
Finance income	2,072	1,038	113	-	2,185	1,038
Finance costs	(11,233)	(8,656)	-	(94)	(11,233)	(8,750)
Share in profits of companies accounted for using the equity method	8	29	-	-	8	29
Exchange differences	(1,786)	(393)	-	-	(1,786)	(393)
Segment profit (loss) before tax	**(42,023)**	**(7,088)**	**2,940**	**1,534**	**(39,083)**	**(5,554)**
Income tax expense	15,806	4,436	(831)	(445)	14,975	3,991
Profit (Loss) for the year	**(26,217)**	**(2,637)**	**2,109**	**1,074**	**(24,108)**	**(1,563)**
Segment assets	869,526	818,023	36,304	33,141	905,830	851,164
Investments accounted for using the equity method	346	637	-	-	346	637
Total segment assets	**869,872**	**818,660**	**36,304**	**33,141**	**906,176**	**851,801**
Investments in non-current fixed assets	34,830	33,984	58	12	34,888	33,996
Total segment liabilities	**618,907**	**533,416**	**5,454**	**4,825**	**624,361**	**538,241**

The business segments are managed at global level since the Group operates throughout the world, its main markets being Europe, the US and India (see Note 2-f). The main activities in Europe are carried on in Spain, Germany, Austria, France, Italy, the Netherlands and the United Kingdom.

In geographical segment reporting, revenue and segment assets are based on the geographical location of customers and of assets, respectively.

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2017 and 2016 is as follows (in thousands of euros):

Geographical area	2017	%	2016	%
Spain	42,910	9%	43,722	9%
Rest of Europe	240,391	49%	235,263	47%
US	39,950	8%	32,988	7%
Other countries	167,110	34%	182,056	37%
Total sales	**490,361**	**100%**	**494,029**	**100%**

b) The distribution, by geographical area, of net investments in non-current assets at 31 December 2017 and 2016 is as follows (in thousands of euros):

Geographical area	2017	%	2016	%
Spain	199,264	49.6%	195,379	49%
Rest of Europe	151,274	37.6%	154,885	38%
India	29,084	7.2%	27,705	7%
US	20,629	5.1%	24,296	6%
Thailand	1,579	0.4%	-	0%
Brazil	15	0%	17	0%
Total non-current assets	**401,845**	**100%**	**402,282**	**100%**

7. Intangible assets

The detail of "Intangible Assets" and of the changes therein in 2017 and 2016 is as follows (in thousands of euros):

	Thousands of euros				
	Goodwill	Works of art (Note 8)	Other intangible assets	Greenhouse gas emission allowances	Total
Cost-					
Cost at 01/01/16	**28,383**	**5,788**	**56,555**	**618**	**91,344**
Additions	-	-	6,330	211	6,541
Disposals	-	(238)	(71)	(267)	(576)
Translation differences	-	-	28	-	28
Cost at 31/12/16	**28,383**	**5,550**	**62,842**	**562**	**97,337**
Additions	-	-	8,398	156	8,554
Disposals	-	-	(1,187)	(305)	(1,492)
Translation differences	-	-	(2)	-	(2)
Transfers (Note 8)	-	(5,550)	-	-	(5,550)
Cost at 31/12/17	**28,383**	**-**	**70,051**	**413**	**98,847**
Accumulated amortisation-					
Accumulated amortisation at 01/01/16	-	-	**(21,791)**	-	**(21,791)**
Charge for the year	-	-	(3,245)	-	(3,245)
Disposals	-	-	71	-	71
Translation differences	-	-	(3)	-	(3)
Accumulated amortisation at 31/12/16	-	-	**(24,968)**	-	**(24,968)**
Charge for the year	-	-	(4,348)	-	(4,348)
Disposals	-	-	1,044	-	1,044
Translation differences	-	-	6	-	6
Accumulated amortisation at 31/12/17	-	-	**(28,266)**	-	**(28,266)**
Accumulated impairment losses at 31/12/16	-	**(736)**	-	-	**(736)**
Charge for the year	(16,275)	-	(2,400)	-	(18,675)
Transfers (Note 8)	-	736	-	-	736
Accumulated impairment losses at 31/12/17	**(16,275)**	-	**(2,400)**	-	**(18,675)**
Net intangible assets at 31/12/16	**28,383**	**4,814**	**37,874**	**562**	**71,633**
Net intangible assets at 31/12/17	**12,108**	**-**	**39,385**	**413**	**51,906**

The most significant additions in 2017 related to research and development work in connection with new products or more efficient work methods in the production plants amounting to EUR 4,880 thousand (2016: EUR 5,815 thousand) (see Note 3-b).

Also in 2017 the Parent reclassified EUR 4,814 thousand of the works of art recognised under "Intangible Assets" to "Property Plant and Equipment" (see Notes 3-a and 8).

a) *Goodwill-*

The detail of goodwill is as follows:

	31/12/16	Impairment	Allocation	31/12/17
Schoeller- Bleckmann (Sber)	18,275	(16,275)	(2,000)	-
TSS Austria	-	-	2,000	2,000
Tubacex Prakash India Pvt Ltd	10,008	-	-	10,008
MIS	100	-	-	100
Total	**28,383**	**(16,275)**	-	**12,108**

Goodwill of Schoeller - Bleckmann (Sber)

The goodwill arose mainly from the acquisition of the SBER Group and was allocated to the cash-generating unit composed of the companies located in Austria, which form a productive cash-generating unit. At present, the companies located in Austria are Schoeller Bleckmann, a production company whose cornerstone activity will be the production of high-value-added products and TSS Austria, which was created in 2016 (see Note 2-f), a company that will perform the traditional distribution line of business. The internal reorganisation of both these businesses gave rise to the reallocation of goodwill in 2017 and as a result goodwill allocated to the distribution business amounts to EUR 2 million, based on the appraisal of the transferred business performed by an independent valuer.

The recoverable amount of the cash-generating unit was determined on the basis of the calculation of its value in use. These calculations use cash flow projections based on five-year financial budgets approved by the directors. The directors determine the budgeted gross margin on the basis of past performance and expectations regarding the evolution of the market. They consider the current market situation regarding commodity prices to be highly unfavourable due to a convergence of macroeconomic factors, and that a recovery of the commodities market in the short and medium term will improve the budget projections, which they consider to be prudent.

Taking into consideration the change in activity to high-value-added products, particularly umbilicals (in 2017 and 2016 significant orders were placed, in certain cases, multiannual orders), in 2016 the Parent's directors approved a new Industrial Plan (already being implemented) for the period 2017 - 2021 in order to direct the commercial and industrial strategy of SBER towards this type of high-value-added product, using mainly the installed capacity.

In order to achieve this plan it was resolved to invest EUR 22 million in SBER's non-current assets between 2017 and 2021 with a view to:

- increasing the production capacity of high-value-added products
- structuring the plant's assets more efficiently from a lean-manufacturing standpoint, which will help to reduce working capital levels and ensure a more efficient production process
- further automating the production process

The projections made by the Parent's directors for 2018-2022 for the impairment test on goodwill were based on those approved in the aforementioned Industrial Plan. In 2017, due to the failure to meet the projections made in the previous year, the Parent made a downward adjustment to the projected cash flows. Other assumptions assumed in the goodwill impairment test are:

- The post-tax discount rate used in the cash flow projections was 7.4% in 2017 (2016: 7.9%) and reflected the specific risks of the cash-generating unit. This post-tax discount rate was equal to a pre-tax discount rate of 9.3%. This discount rate, which was estimated by management, was compared to and consistent with an average of discount rates used by specialists.
- Perpetuity growth rate projection ("g" = 1.9%) equivalent to the expected long-term inflation rate for Austria and the growth rate given by analysts for the Tubacex Group.

On the basis of the estimates and projections available to the Group's directors, based on the Industrial Plan approved in 2016 and is still in progress, the net cash flow projections attributable to this UGE support the value of the goodwill. Despite this, due to the high level of sensitivity to variances in sales, WACC and perpetuity growth rates ("g"), as well as to the repeated non-compliance with the projections in recent years, the directors have recognised an impairment loss of EUR 16,275 thousand with a charge to "Depreciation and Amortisation Charge and Impairment Losses on Non-Current Assets".

Goodwill of Tubacex Prakash India Pvt Ltd

The acquisition by the Indian subsidiary Tubacex Prakash India Pvt Ltd of the production line of Prakash Steelage Pvt Ltd for INR 2,091 million gave rise to a difference of INR 708 million between the price paid and the net assets acquired (EUR 10,008 thousand).

As in the case of the test for the impairment of goodwill of SBER, the recoverable amount of this CGU was calculated on the basis of its value in use. These calculations use cash flow projections based on five-year financial budgets approved by management. Management determined the budgeted gross margin for the Indian company on the basis of its expectations regarding the evolution of the market. Specifically, management used as main assumptions significant annual growth in sales volumes and post-tax discount rate used in the cash flow projections of 8.1% and a growth rate equal to those used to measure the goodwill of Austria.

Based on the estimates and forecasts available to the Group's directors, the projected net cash flows attributable to this cash generating unit support the value of this goodwill, concluding that it is not impaired at 31 December 2017.

From a sensitivity-analysis standpoint, an increase of 100 basis points in the discount rate would not give rise to impairment of this goodwill. Similarly, a 2,000 basis point reduction in the assumption of annual sales growth, to 5% annual growth, would not give rise to impairment.

b) *Emission allowances-*

The detail of the fair value at 31 December 2017 and initial value of the non-monetary grants relating to emission allowances received by the Group companies in 2017 and 2016 is as follows:

Thousands of euros			
2017		2016	
Fair value	Initial value	Fair value	Initial value
116	157	184	211

The detail of the changes in the number of allowances in 2017 and 2016 is as follows:

	Number of allowances
Balances at 31 December 2016	**72,596**
Additions	25,694
Disposals	(39,280)
Balances at 31 December 2017	**59,010**

c) *Works of art-*

These are works of art owned by the Parent. The TUBACEX Group commissions periodically an independent expert appraisal of these works of art and the market valuation arising therefrom is in line with the carrying amount recognised at 31 December 2017 and 2016 (the most recent appraisal commissioned by the Parent was in 2015). Works of art are not depreciated since it is considered that they do not suffer decline in value from the passage of time. Pursuant to the applicable regulations, this characteristic applies solely to property, plant and equipment. As a result, at 31 December 2017 "Works of Art" was transferred from "Intangible Assets" to "Property, Plant And Equipment" in the accompanying consolidated statement of financial position (see Notes 3-a, 7 and 8).

At 2017 year-end the Group had no firm intangible asset purchase commitments (2016 year-end: EUR 50 thousand).

At 2017 year-end the Group had fully amortised intangible assets in use (mostly computer software) amounting to EUR 14,075 thousand (2016 year-end: EUR 15,118 thousand).

Of the Group's intangible assets and property plant and equipment (see Notes 3-a, 7 and 8), at the end of 2017 and 2016 the following items were not being used directly in operations (in thousands of euros):

	2017			2016		
	Cost	Valuation adjustments	Total	Cost	Valuation adjustments	Total
Works of art	5,550	(736)	4,814	5,550	(736)	4,814

There were no changes in 2017. In 2016 the Group sold four works of art for EUR 499 thousand, the carrying amount of which was EUR 238 thousand. Income of EUR 261 thousand from the transaction was recognised under other "Other Operating Income" in the consolidated statement of profit or loss for 2016 (see Note 24).

d) *Other intangible assets*

In 2015 assets arising from the purchase of IBF S.p.A. were recognised at their fair value under "Intangible Assets". Specifically, these assets relate to a brand amounting to EUR 11.7 million; an agreement with a strategic customer to produce a specific product for the amount of EUR 9.6 million; and a customer portfolio amounting to EUR 1.5 million, which was valued by an independent expert as part of a purchase price allocation process. The revaluation of these assets gave rise to a deferred tax liability which was recognised in order to reflect the transaction net of its tax effect (see Note 22) in the accompanying consolidated financial statements.

The brand (since it has an indefinite useful life) and the agreement with the strategic customer are tested each year to ascertain whether they have become impaired. Furthermore, the customer portfolio was fully amortised in 2015 (see Note 3-a).

IBF brand

At the end of 2017 the directors assessed whether the intangible asset relating to the IBF brand had become impaired. To determine the recoverable amount, the directors used the royalty rate approach, which is based on the value of the asset being equal to the present value of the income obtained or the theoretical income from collecting a royalty that the asset generates or might generate. The asset is discounted to present value using a discount rate plus a premium, since it is considered that due to its nature it is an asset the projected cash flows of which are subject to increased risk.

The main assumptions assumed to test the brand for impairment were:

- Sales projections based on four-year financial budgets approved by the directors. These projected sales are lower than the sales projected in the purchase price allocation (PPA) process performed in 2015.
- The directors estimated the sales between 2018 and 2022 on the basis of their market development projections and taking into consideration that the current commodities market situation is particularly unfavourable but will not continue long term.
- The directors consider that, at long term, the assumptions regarding the company's market potential used in the acquisition of IBF, S.p.A. have not changed.
- A royalty rate of 0.7% was used, which is similar to the rate used by the independent expert when performing the PPA process.
- The cash flows were discounted to present value using a discount rate of 9.9% (corresponding to a WACC of 7.9% plus a 2% risk premium).

Based on the results of the foregoing test, at 31 December 2017, the Parent's directors consider that the IBF brand has not become impaired. However, this intangible asset will be tested for impairment at least once a year.

Agreement with strategic customer

With respect to the intangible asset in relation with the agreement with the strategic customer, it is associated with four orders for a specific product which, when the asset was recognised, it was envisaged would be received prior to 2021, and the asset would be amortised as the various orders were produced. Although management considers that IBF will be the successful bidder for the orders in the coming years, there are indications of a delay in relation to the timetable initially envisaged when IBF was acquired to gain the aforementioned orders, and the best estimate at 31 December 2017 is that three orders will be placed before 2021. Therefore, an impairment loss of EUR 2.4 million (amount equivalent to one of the four orders initially estimated) was included in the consolidated statement of profit or loss with a charge to "Depreciation and Amortisation Charge and Impairment Losses on Non-Current Assets".

8. Property, plant and equipment

The detail of "Property, Plant and Equipment" in the consolidated statement of financial position and of the changes therein in 2017 and 2016 is as follows:

	Thousands of euros						
	Land	Buildings	Plant and machinery	Other fixtures, tools, furniture and other items of property, plant and equipment	Works of art (Note 7)	Advances and property, plant and equipment in the course of construction	Total
Cost-							
Cost at 01/01/16	**26,346**	**107,999**	**565,918**	**36,032**	**-**	**12,822**	**749,117**
Additions	-	3,477	17,715	3,243	-	9,561	33,996
Disposals	(252)	(28)	(1,124)	(3,414)	-	(27)	(4,845)
Transfers	-	760	2,783	1,412	-	(4,955)	-
Translation differences	50	340	1,182	(28)	-	94	1,638
Cost at 31/12/16	**26,144**	**112,548**	**586,474**	**37,245**	**-**	**17,495**	**779,906**
Inclusions in the scope of consolidation (Note 2-f)	199	1,380	-	-	-	-	1,579
Additions	-	414	22,078	2,602	-	9,794	34,888
Disposals	-	(77)	(5,770)	(2,670)	-	-	(8,517)
Transfers	-	536	13,786	1,610	5,550	(15,932)	5,550
Translation differences	(451)	(2,061)	(4,159)	(128)	-	(446)	(7,247)
Cost at 31/12/17	**25,892**	**112,740**	**612,409**	**38,659**	**5,550**	**10,911**	**806,161**
Accumulated depreciation-							
Accumulated depreciation at 01/01/16	**-**	**(70,454)**	**(386,549)**	**(28,375)**	**-**	**-**	**(485,378)**
Charge for the year	-	(2,084)	(23,674)	(3,422)	-	-	(29,180)
Disposals	-	19	1,032	2,007	-	-	3,058
Translation differences	-	(91)	(684)	(10)	-	-	(785)
Accumulated depreciation at 31/12/16	**-**	**(72,610)**	**(409,875)**	**(29,800)**	**-**	**-**	**(512,285)**
Charge for the year	-	(2,154)	(26,102)	(2,918)	-	-	(31,174)
Disposals	-	68	5,681	1,651	-	-	7,400
Translation differences	-	354	2,665	50	-	-	3,069
Accumulated depreciation at 31/12/17	**-**	**(74,342)**	**(427,631)**	**(31,017)**	**-**	**-**	**(532,990)**
Accumulated impairment losses at 31/12/16	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impairment losses (recognised)/ reversed in the year	-	-	-	-	-	-	-
Transfers	-	-	-	-	(736)	-	(736)
Accumulated impairment losses at 31/12/17	**-**	**-**	**-**	**-**	**(736)**	**-**	**(736)**
Net property, plant and equipment at 31/12/16	**26,144**	**39,938**	**176,599**	**7,445**	**-**	**17,495**	**267,621**
Net property, plant and equipment at 31/12/17	**25,892**	**38,398**	**184,778**	**7,642**	**4,814**	**10,911**	**272,435**

The main additions in 2017 related to an extrusion press and six Pilger laminators (three of which are intended for the US subsidiary Salem Inc, one for the Austrian company Schoeller Bleckmann GmbH and two for the Indian company Tubacex Prakash Pvt Ltd). These investments will facilitate the increase in capacity at the three subsidiaries within the framework of the Strategic Plan to increase low-value-added product capacity in India, increase the installed capacity for umbilicals and instrumentation products in Austria and strengthen the Group's positioning in the US.

The main additions in 2016 related to investments in the automation and improvement of the processes of the plant at the Alava factories recognised by the Group under "Property, Plant and Equipment"; these were made for the following reasons: to increase the efficiency of various processes and the duration of the AOD converters at the steelworks, to replace the existing cooling towers and to integrate new handling machines for the new machining cell for raw materials at the tube production unit. Also, investments were made in the automation of the umbilical production process at the Austrian subsidiary and development continued on a new production process at the Italian subsidiary (EUR 9 million under "Property, Plant and Equipment in the Course of Construction", of which EUR 5 million were investments made in 2016.)

The disposals in 2017 and 2016 related mainly to idle items of fully depreciated property, plant and equipment.

At 31 December 2017 and 2016, the Group had the following investments in property, plant and equipment located abroad (in thousands of euros):

2017

	Gross carrying amount	Accumulated depreciation	Accumulated valuation adjustments
Land and buildings	64,047	(25,872)	-
Plant and machinery	273,325	(181,649)	-
Other items of property, plant and equipment	8,457	(7,495)	-
Property, plant and equipment in the course of construction	9,247	-	-
Total	**354,409**	**(215,016)**	-

2016

	Gross carrying amount	Accumulated depreciation	Accumulated valuation adjustments
Land and buildings	63,760	(24,981)	-
Plant and machinery	265,631	(172,326)	-
Other items of property, plant and equipment	8,817	(9,546)	-
Property, plant and equipment in the course of construction	15,834	-	-
Total	**354,042**	**(206,853)**	-

At the end of 2017 and 2016 the Group had fully depreciated items of property, plant and equipment still in use, the detail being as follows (in thousands of euros):

2017

	Gross carrying amount
Buildings	55,660
Plant and machinery	257,741
Other items of property, plant and equipment	28,151
Total	**341,452**

2016

	Gross carrying amount
Buildings	51,753
Plant and machinery	248,638
Other items of property, plant and equipment	28,013
Total	**328,404**

Other disclosures

As indicated in Note 9, at the end of 2017 and 2016 the Group held various items of property, plant and equipment under finance leases.

As a result of the impairment test conducted by the Group, the directors consider that there was no indication of impairment of the Group's other assets at 31 December 2017 or 2016.

At 31 December 2017, the amount payable by the Group to non-current asset suppliers was EUR 5,511 thousand (31 December 2016: EUR 5,606 thousand), and this amount was recognised under "Trade and Other Payables" in the accompanying consolidated statement of financial position (see Note 20).

At 2017 year-end the Group had firm property, plant and equipment purchase commitments amounting to approximately EUR 2,739 thousand (2016 year-end: EUR 2,274 thousand).

At 31 December 2017, the Group had not pledged any items of property, plant and equipment as security for mortgage loans (31 December 2016: EUR 8,324 thousand) (see Note 18). The security related to specific financing for the Austrian subsidiary which was repaid in 2017.

In December 2015, the Tubacex Group was granted a loan of EUR 65 million by the European Investment Bank to finance research projects in the period from 2015 to 2019 as part of the European Commission's Horizon 2020 framework programme. The loan was earmarked for financing a portion of the investments amounting to EUR 134 million in property, plant and equipment and intangible assets at the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación S.A.U. At 31 December 2017, the Group had drawn down EUR 65 million against this loan. These companies act as guarantors of this loan (see Note 18).

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2017 and 2016 these risks were adequately insured.

The Group did not hold any items of property, plant and equipment at fair value at 31 December 2017.

9. Leases

Finance leases

At 31 December 2017, the Group, as the lessee under finance leases, had recognised leased assets with a carrying amount of EUR 1,449 thousand (31 December 2016: EUR 1,543 thousand) under "Property, Plant and Equipment - Plant and Other Items of Property, Plant and Equipment". The agreement entered into in 2013 with the bank Caja Rural de Navarra for the acquisition of the main machine for the OCTG business line (see Note 8) gave rise to the recognition of these assets under finance lease at the end of 2017 and 2016.

At 31 December 2017 and 2016, the Group had arranged with the lessor for the following minimum lease payments (including any purchase options), based on the lease currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum finance lease payments	2017	2016
Within 1 year	155	201
Between 1 and 5 years	-	155
Total	**155**	**356**

Operating leases

At the end of 2017 and 2016 the Group had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum operating lease payments	2017	2016
Within 1 year	299	291
Between 1 and 5 years	862	1,007
After 5 years	1,315	1,503
Total	**2,476**	**2,801**

The main leases giving rise to the minimum payments for the Group are as follows:

- Leases of industrial buildings, warehouses or offices where Group companies carry on their activities, and full-service leases of vehicles.

- On 14 October 2013, the Parent entered into an agreement with Suelo Industrial Marina Medio Cudeyo, 2006 S.L. for the construction of the industrial building where the Group company Tubacex Services, S.L. carries on its production activity and for the lease with a purchase option on the industrial building and the land on which it is constructed. This lease has a minimum term of 15 years from the date of delivery of the industrial building to the lessee, which is extendible for three periods of three years each, unless the lessee decides otherwise. The annual rent stipulated in the lease amounts to EUR 187,920. The purchase option established in the lease is exercisable between the first and sixth years of the lease and the agreed-upon purchase price is EUR 2,748,018. At 31 December 2017, the Parent's directors had not taken any decision on whether the purchase option would ultimately be exercised. For these reasons, the Group did not recognise any liability in relation to this lease in the accompanying consolidated statement of financial position as at 31 December 2017.

The detail of the operating lease payments recognised as an expense in 2017 and 2016 is as follows (in thousands of euros):

	2017	2016
Minimum lease payments	299	291
Contingent rents paid	-	-
Total	**299**	**291**

10. Investments in companies accounted for using the equity method

The detail of the investments accounted for using the equity method at the end of 2017 and 2016 and of the changes therein in 2017 and 2016 is as follows:

2017

	Thousands of euros				
	Beginning balance	Share of results of companies accounted for using the equity method (1)	Liquidation	Dividends	Ending balance
Schoeller-Bleckmann Edelstahlorhr Deutschland, GmbH (Sberd)	501	5	-	(299)	207
Schoeller-Bleckmann Tube France (SBTF)	136	3	-	-	139
Total	**637**	**8**	-	**(299)**	**346**

(1) Although the TUBACEX Group exercises control over the above-mentioned companies, they were accounted for using the equity method due to their scant materiality in relation to the fair presentation of the TUBACEX Group.

2016

	Thousands of euros				
	Beginning balance	Share of results of companies accounted for using the equity method (1)	Liquidation	Dividends	Ending balance
Schoeller-Bleckmann Edelstahlorhr Deutschland, GmbH (Sberd)	473	28	-	-	501
Schoeller-Bleckmann Tube France (SBTF)	135	1	-	-	136
Total	**608**	**29**	-	-	**637**

(1) Although the TUBACEX Group exercises control over the above-mentioned companies, they were accounted for using the equity method due to their scant materiality in relation to the fair presentation of the TUBACEX Group.

11. Financial assets

The detail of "Financial Assets" in the consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Non-current:		
Equity instruments	4,153	5,798
Available-for-sale financial assets	829	850
Loans to related companies (Note 26)	1,656	723
	6,638	**7,371**
Current:		
Held-for-trading financial assets measured at fair value	32,069	101,887
Other financial assets (Note 14)	15,604	2,112
	47,673	**103,999**

As a result of the business combination performed in Italy in 2015, the Tubacex Group acquired an ownership interest through IBF SpA in three unlisted companies, which were valued for the purchase price allocation process at EUR 8,274 thousand.

In 2016 IBF SpA sold the ownership interest in Jilin Sino Italy Nuclear Piping Components Manufacturing Co Ltd, the carrying amount of which totalled EUR 2.9 million, for EUR 3.2 million, thereby generating a gain of EUR 0.3 million, which was recognised in the consolidated statement of profit or loss for 2016. Also, in the context of this sale an agreement was entered into with the buyer of this ownership interest for the sale of technology which gave rise to income of approximately EUR 5.5 million, which were recognised under "Other Operating Income" in the accompanying consolidated statement of profit or loss (see Note 24).

At the end of 2017 and 2016 the main balances of the two companies in which IBF SpA retained ownership interests were as follows:

Company name	%	Carrying amount 2016	Carrying amount 2017	Share capital	Profit (Loss)	Shareholders' equity
C.F.F. Srl (*)	26%	2,014	400	47	(183)	762
COPROSIDER Srl (*)	25%	3,335	3,335	100	333	3,857
Total		**5,349**	**3,735**			

(*) Figures from the financial statements as at 31 December 2016.

The directors of the Tubacex Group recognised an impairment loss on the ownership interest in C.F.F. Srl of EUR 1.6 million with a charge to "Finance Costs" in the accompanying statement of profit or loss based on the poor situation of the Company's business and the failure to meet the projections made when the asset was recognised.

Also, "Loans to Related Companies" included a loan of EUR 644 thousand granted to Coprosider Srl, a loan of EUR 82 thousand granted to the non-controlling shareholder of Tubacex Upstream Technologies and a loan of EUR 910 thousand granted to the non-controlling shareholder of Tubacex Awaji Thailand (Awaji Materia).

The financial assets classified as non-current available-for-sale investments relate to financial investments in medium- and long-term fixed-income investment funds. The carrying amount of the aforementioned investment funds is their fair value.

The Parent had invested a portion of the cash surplus in investment funds and at 31 December 2017 EUR 29,429 thousand (31 December 2016: EUR 100,242 thousand) were recognised under "Current Financial Assets", which generated net finance income due to changes in fair value of EUR 1,103 thousand (31 December 2016: EUR 676 thousand), which was recognised under "Finance Income" in the accompanying consolidated statement of profit or loss for the year ended 31 December 2017.

The detail of the net gains and losses on financial assets is as follows:

	Thousands of euros							
	2017				2016			
	Available-for-sale financial assets	Held-for-trading financial assets (derivatives)	Loans and receivables	Total	Available-for-sale financial assets	Held-for-trading financial assets (derivatives)	Loans and receivables	Total
Finance income applying the amortised cost method	-	-	-	-	-	-	28	28
Change in fair value	1,103	1,082	-	2,185	676	334	-	1,010
Net gains/(losses) recognised in profit or loss	**1,103**	**1,082**	-	**2,185**	**676**	**334**	**28**	**1,038**

12. Derivative financial instruments

The detail of the derivative financial instruments at 31 December 2017 and 2016 is as follows:

2017

	Notional amount		Thousands of euros			
			Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Current	Non-current	Current
Held-for-trading derivatives						
Forward sales of USD	4,800	USD	-	120	-	-
Forward sales of GBP	2,022	GBP	-	2	-	(38)
Forward purchases of USD	35,902	USD	-	4	-	(1,588)
			-	**126**	**-**	**(1,626)**
Hedging derivatives						
Cash flow hedges						
Interest rate swaps	76,128	Euros	-	-	(579)	(351)
Forward sales of USD	8,715	USD	-	144	-	-
Forward sales of GBP	979	GBP	-	4	-	-
Forward purchases of USD	88,876	USD	-	-	(1,365)	(3,115)
			-	**148**	**(1,944)**	**(3,466)**
			-	**274**	**(1,944)**	**(5,092)**

2016

	Notional amount		Thousands of euros			
			Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Current	Non-current	Current
Held-for-trading derivatives						
Forward sales of USD	10,796	USD	-	-	-	(688)
Forward sales of GBP	824	GBP	-	7	-	(9)
Forward purchases of USD	16,988	USD	138	515	-	(16)
			138	**522**	**-**	**(713)**
Hedging derivatives						
Cash flow hedges						
Interest rate swaps	100,322	Euros	-	-	(930)	(397)
Forward sales of USD	30,767	USD	-	7	-	(1,513)
Forward purchases of USD	1,155	GBP	-	12	-	-
			-	**19**	**(930)**	**(1,910)**
			138	**541**	**(930)**	**(2,623)**

These financial instruments are classified in accordance with the value measurement hierarchy established in IFRS 7, as they reflect other than quoted prices based on observable market data.

a) *Forward foreign currency purchase and sale contracts-*

As indicated in Note 2-c, the Group's functional currency is the euro. To manage foreign currency risk, mainly in relation to the US dollar, the Group has arranged various forward foreign currency purchase and sale contracts for its import and export transactions, respectively.

At 31 December 2017, the Group had forward foreign currency sale contracts amounting to EUR 6,354 thousand (2016: EUR 10,757 thousand) that did not qualify for hedge accounting. The notional amount of the foreign currency held for trading was USD 4,800 thousand (2016: USD 10,796 thousand) and GBP 2,022 thousand (2016: GBP 824 thousand). In all cases, these derivatives were arranged as hedges of foreign currency sales.

The detail at 31 December 2017 and 2016 of the notional amounts of forward foreign currency sale contracts, by residual maturity and currency, is as follows:

	Thousands of euros			
	2017		2016	
	US dollars	Pounds sterling	US dollars	Pounds sterling
Within 1 year	4,106	2,248	9,797	960

At 31 December 2017, the speculative forward foreign currency sale contracts gave rise to unrealised losses of EUR 30 thousand and unrealised gains of EUR 122 thousand (31 December 2016: unrealised losses of EUR 697 thousand and unrealised gains of EUR 7 thousand).

At 31 December 2016, the forward foreign currency sale contracts to which the Group applied hedge accounting gave rise to unrealised losses of EUR 1,513 thousand. At 31 December 2017, these contracts gave rise to unrealised gains of EUR 148 thousand (31 December 2016: unrealised gains of EUR 19 thousand). Since these hedges were accounted for as cash flow hedges and the forecast hedged sales had not yet been recognised in the consolidated statement of financial position at the reporting date, all the changes in value of these derivatives were recognised in equity.

Also, at 31 December 2017, the Group had entered into speculative forward foreign currency purchase contracts with a notional amount of EUR 31,358 thousand (2016: EUR 15,337 thousand). At 31 December 2017, the value of the foreign currency held for speculative purposes was USD 35,902 thousand (31 December 2016: USD 16,988 thousand). In all cases, these derivatives were arranged as hedges of foreign currency purchases.

The detail at 31 December 2017 and 2016 of the notional amounts of forward foreign currency purchase contracts, by residual maturity and currency, is as follows:

	Thousands of euros	
	US dollars	
	2017	2016
Within 1 year	31,358	15,337

At 31 December 2017, the speculative forward foreign currency purchase contracts gave rise to unrealised gains of EUR 4 thousand and unrealised losses of EUR 1,588 thousand (31 December 2016: unrealised gains of EUR 653 thousand and unrealised losses of EUR 16 thousand).

Also, at 31 December 2017, the Group had nickel purchase contracts to which future cash flow hedge accounting was applied, which give rise to unrealised losses of EUR 4,480 thousand. The notional amount of these hedges was USD 88,876 thousand (EUR 75,892 thousand) and the hedged items are two contracts to purchase nickel at set dates and prices until 2019. Since the amount and timing of the cash flows of the US dollar commodity purchases (see Note 13) are the same, this is an effective hedge. Since these hedges were accounted for as cash flow hedges and the forecast hedged purchases had not yet been recognised in the consolidated statement of financial position at the reporting date (open transactions), the changes in value of these derivatives were recognised in full in equity.

The fair values of these forward foreign currency purchase and sale contracts were estimated by discounting the cash flows on the basis of forward exchange rates available in public domain sources.

b) Commodity futures-

To hedge the risks of volatility in the prices of the nickel used in its production process, the Group arranges futures contracts on the price of this commodity.

At 31 December 2017 and 2016, the Group did not have any outstanding nickel futures contracts.

The fair values of these nickel swaps were estimated by discounting cash flows, taking into account the difference between the market prices of this commodity available in public domain information sources at 31 December and the corresponding guaranteed fixed price in each contract. At 31 December 2017 and 2016, the Group did not have any commodity futures contracts qualifying as hedges.

c) *Interest rate swaps-*

The Group uses fixed-for-floating interest rate swaps to manage its exposure to changes in interest rates. The detail of the swaps outstanding at 31 December 2017 and 2016 is as follows:

2017

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
10,000	16/07/17	16/07/21	0.670%
2,479	20/11/14	20/05/19	0.720%
1,149	30/09/14	30/06/19	0.355%
750	20/06/14	19/06/19	0.690%
17,500	17/07/14	17/07/19	0.520%
6,000	12/11/14	16/11/20	0.360%
10,500	01/11/17	03/05/21	0.45%
10,000	22/05/17	20/05/21	0.74%
8,750	31/03/17	31/03/21	0.755%
9,000	12/08/15	12/11/20	0.243%

2016

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
10,000	16/07/17	16/07/21	0.670%
643	20/01/13	20/07/17	0.645%
4,229	20/11/14	20/05/19	0.720%
1,892	30/09/14	30/06/19	0.355%
877	01/01/13	01/08/17	1.240%
1,250	20/06/14	19/06/19	0.690%
2,000	06/05/14	06/05/17	0.355%
1,333	27/01/13	27/07/17	0.830%
1,348	20/08/14	20/02/17	0.800%
26,250	17/07/14	17/07/19	0.520%
8,000	12/11/14	16/11/20	0.360%
10,500	01/11/17	03/05/21	0.45%
10,000	22/05/17	20/05/21	0.74%
10,000	31/03/17	31/03/21	0.755%
12,000	12/08/15	12/11/20	0.243%

d) *Cash flow hedges-*

The amount of cash flow hedges reclassified in full from equity to profit or loss and the detail of the related line items in the consolidated statement of profit or loss in which the amounts were recognised are as follows:

	Thousands of euros	
	Gains/(Losses)	
	2017	2016
Interest rate swaps:		
- Finance income/costs	(533)	(518)
Foreign currency hedges:		
- Exchange differences	(101)	15
	(634)	**(503)**

The finance costs arising from the interest rate swaps that expired in 2017 were recognised under "Finance Costs" in the accompanying consolidated statement of profit or loss.

As a result of its adoption of IFRS 13, the Group was required to change its valuation techniques for obtaining the fair value of its derivatives. The Group includes a credit risk adjustment in order to reflect its own risk and that of the counterparty in the fair value of the derivatives using generally accepted valuation models.

Specifically, the adjustment for credit risk was calculated by applying a technique based on simulations of expected total exposure (including both current and potential exposure) adjusted by the probability of default over time and by the loss severity (or potential loss) assigned to the Group and to each of the counterparties. The total expected exposure of the derivatives is obtained by using observable market inputs, such as interest rate, exchange rate and volatility curves based on the market conditions at the measurement date.

Disclosures on the fair value hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (e.g. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Upon inception, the fair value of the derivatives arranged by the Group equals their transaction price in their principal market (the retail market).

For financial reporting purposes, the fair value measurements are classified into Level 1, 2 or 3 depending on the degree to which the inputs used are observable and their importance for measuring fair value in its entirety, as described below:

- Level 1 - These inputs are based on quoted prices (unadjusted) for identical instruments traded in active markets.

- Level 2 - These inputs are based on quoted prices for similar instruments in active markets (not included in Level 1), quoted prices for identical or similar assets or liabilities in markets that are not active, and techniques based on valuation models for which all the significant inputs are observable in the market or may be corroborated by observable market data.

- Level 3 - The inputs are generally unobservable and, in general terms, they reflect estimates of the market assumptions for determining the price of the asset or liability. The unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

The Group concluded that most of the inputs used for determining the fair value of the derivative financial instruments are at Level 2 of the hierarchy, including the data used for calculating the credit risk adjustment of the Group and the counterparty. Although the Group made this determination, the credit risk adjustments used Level 3 inputs, such as the credit estimates based on credit ratings or on comparable companies in order to assess the likelihood of default by the company or the company's counterparties.

The Group assessed the significance of the credit risk adjustments in the total valuation of the derivative financial instruments and determined that they are not significant.

The application of IFRS 13 may affect the effectiveness of the hedges. However, in 2017 the hedges continued to be highly effective, with little impact on the accounting ineffectiveness that would be reflected in the consolidated statement of profit or loss.

13. Inventories

The detail of "Inventories" in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Goods held for resale	13,986	11,727
Raw materials and other supplies	106,446	94,850
Work in progress and semi-finished goods	79,185	75,682
Finished goods	75,304	63,452
Advances to suppliers	1,787	561
Write-downs	(28,132)	(25,057)
	248,576	**221,213**

The Parent has commitments amounting to EUR 75,892 thousand to buy one of the commodities used in the production process from a supplier with which it has arranged the supply of a monthly volume in tonnes at a fixed price. In this way, the Group aims to ensure its margins in an important order (see Note 14). The arranged volume in tonnes is less than the volume in tonnes required if the aforementioned contract were to be performed normally. Also, the Group's directors have used currency forwards to hedge changes in the US dollar exchange rate, since the purchase cash flows in the aforementioned agreement are in US dollars (see Note 12-a).

In 2017 the Tubacex Group entered into an important agreement which satisfies the accounting requirements for the recognition of revenue by reference to the stage of completion (see Note 3-p), which gave rise to inventories amounting to EUR 47,194 thousand that were located at the Group's warehouses being reclassified to accounts receivable at 31 December 2017 (see Note 14).

The changes in raw materials used, other consumables and goods held for resale in 2017 and 2016 were as follows:

	Thousands of euros	
	2017	2016
Raw materials, other consumables and goods held for resale used/sold-		
Net purchases	263,123	259,343
Changes in inventories	11,596	8,682
	274,719	268,025

The changes in the write-downs of inventories in the accompanying consolidated statement of financial position were as follows (in thousands of euros):

2017

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	14,128	1,913	(309)	15,732
Work in progress	2,040	13	(21)	2,032
Finished goods	8,889	2,205	(726)	10,368
Inventory write-downs	**25,057**	**4,131**	**(1,056)**	**28,132**

2016

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	16,115	-	(1,987)	14,128
Work in progress	2,106	-	(66)	2,040
Finished goods	7,600	1,802	(513)	8,889
Inventory write-downs	**25,821**	**1,802**	**(2,565)**	**25,057**

Net purchases include those made in the following currencies other than the euro:

Currency	Thousands of euros	
	2017	2016
US dollar	82,013	82,417
Indian rupee	10,174	8,620

The business activities of the Indian subsidiary gave rise to an increase in purchases in Indian rupees.

14. Trade and other receivables

The detail of "Trade and Other Receivables" in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Trade receivables for sales and services	77,800	65,708
Trade receivables from Group companies (Note 26)	349	602
Sundry receivables	3,188	3,806
Tax receivables (Note 22)	15,443	10,250
Current tax assets (Note 22)	1,274	2,174
	98,054	**82,540**
Less- Write-downs	(2,451)	(2,900)
Total trade and other receivables	**95,603**	**79,640**

The changes in the write-downs of trade and other receivables were as follows:

	Thousands of euros	
	2017	2016
Balance at 1 January	2,900	3,537
Write-down for uncollectibility (Note 24)	50	20
Reversals (Note 24)	(183)	(309)
Amounts derecognised	(316)	(347)
Translation differences	-	(1)
Balance at 31 December	**2,451**	**2,900**

The detail of the tax receivables at 31 December 2017 and 2016 is as follows (see Note 22):

	Thousands of euros	
	2017	2016
Sundry tax receivables:		
VAT refundable	11,304	7,904
Other items	4,139	2,346
	15,443	**10,250**

Construction contracts

In 2017 the Tubacex Group entered into an important agreement which satisfies the accounting requirements for the recognition of revenue by reference to the stage of completion (see Notes 3-p and 13). The cumulative amount of the revenue recognised and the advances received at 31 December 2017 is recognised under "Trade Receivables for Sales and Services" (see Note 3-v), the detail of which is as follows (in thousands of euros):

	31/12/17
Amounts to be billed for work performed	58,107
Advances received	(40,000)
Advances receivable (*) (Note 11)	(15,604)
Total	**2,503**

(*) Under the construction contract the Group is entitled to collect this amount early, and the directors expect to receive it in the first quarter of 2018.

15. Cash and cash equivalents

The detail of "Cash and Cash Equivalents" in the consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Cash on hand and at banks	107,267	43,360
	107,267	**43,360**

"Cash and Cash Equivalents" includes basically the Group's cash, short-term bank deposits and promissory notes with an initial maturity of three months or less. The bank accounts earn interest at market rates. There are no restrictions on the use of the balances.

16. Equity and shareholders' equity

a) *Share capital-*

At 31 December 2017 and 2016, the share capital was represented by 132,978,782 fully subscribed and paid shares of EUR 0.45 par value each.

All the shares carry the same voting and dividend rights, except for treasury shares, the voting rights of which are suspended and the dividend rights of which are attributed proportionally to the other shares. All the Parent's shares are listed on the Spanish Stock Market Interconnection System.

There are no restrictions on the transferability of the shares.

At 31 December 2017 and 2016, the shareholder Jose María Aristrain de la Cruz held an ownership interest of 11% in the Parent's share capital. Cartera Industrial Rea, which held an ownership interest of 7% of the Parent's share capital at 31 December 2016, sold its ownership interest in 2017.

b) *Share premium-*

This reserve is unrestricted.

c) *Revaluation reserve-*

The detail of the revaluation reserve is as follows:

	Thousands of euros	
	2017	2016
Revaluation reserve Álava Regulation 4/1997	3,763	3,763

As permitted by the applicable corporate law, at 31 December 1996 the Group revalued its property, plant and equipment.

Since the period in which the balance of this reserve could be reviewed by the tax authorities has elapsed, the balance of this account may be used, free of tax, to:

- Offset prior years' losses.

- Increase capital, once the prior years' losses in the consolidated statement of financial position have been offset and the related appropriations have been made to the legal reserve.

- Make appropriations to restricted reserves, using the unused portion of the account balance.

d) *Other reserves-*

The detail of "Other Reserves" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Legal reserve	11,968	11,968
Voluntary reserves:		
Other reserves of the Parent	46,933	47,379
Consolidated reserves	144,766	143,813
Total other reserves	**203,667**	**203,160**

Legal reserve-

Under the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

This reserve had reached the legally required minimum at 31 December 2017.

Other reserves of the Parent-

These consist of unrestricted voluntary reserves.

Consolidated reserves-

Of the total reserves of consolidated companies, EUR 36,106 thousand related to restricted reserves at 31 December 2017.

e) *Treasury shares-*

At 2017 year-end the consolidated Group companies held the following shares of the Parent:

	No. of shares	Par value (thousands of euros)	Average acquisition price (euros)	Total acquisition cost (thousands of euros)
Treasury shares at 2017 year-end	3,142,975	1,414	2.497	7,850

No changes occurred with respect to 31 December 2016.

In 2016 the Board of Directors approved two incentive plans affecting treasury shares, which were also approved by the shareholders at the Annual General Meeting in May 2016 (see Notes 3-k and 16-f).

f) *Other equity instruments-*

In the context of the long-term incentive plan (see Notes 3-k and 3-l), on 25 May 2016 the Board of Directors and the General Meeting approved:

- a programme of call options on 500,000 shares for EUR 2 each for the chief executive officer, with an exercise date of 31 March 2018.

- the grant of loans to ten members of the Management Committee for the acquisition of 1,200,000 shares for EUR 2 each and an individual limit of 120,000 shares. The loans will mature on 31 March 2018, the date on which they should be repaid in full either through a monetary payment or by delivery to the Parent of all the shares acquired in 2016. During the term of the loans the Tubacex Group will maintain a right of pledge over the shares and the borrowers will refrain from disposing of, transferring, selling or encumbering the shares acquired under the plan unless prior written consent is given by the Parent (see Note 16-e). Termination of the borrower's employment relationship at the borrower's request shall give rise to the mandatory early repayment of the loan.

These share option plans were instrumented by entering into an agreement with the chief executive officer and a set of agreements with identical characteristics with each of the ten members of the Group's Management Committee.

In order to value this plan, the Group, through an independent expert, used binomial trees (Cox, Ross and Rubinstein model). This process assumes that movements in share prices consist of a large number of small binomial movements. The model is widely used in financial practice to value transactions, with the aim of including the effect of market conditions in the valuation of equity instruments that have been granted. The main assumptions used in the valuation were as follows:

- The five-year interest rate at the valuation date was 0.031%.
- In order to determine the dividends distributed per share, it was assumed that the dividend yield would be maintained in subsequent years.
- The historical volatility of the last 260 trading sessions was used to determine share price volatility.

To determine the total cost of the plan and the cost to be charged in 2017, the Group's directors considered that:

- All the beneficiaries will meet the requirements to receive the shares.
- The vesting period will end on 31 March 2018.

In accordance with the above, the total valuation of the two plans at the grant date was estimated to be EUR 930 thousand. As described in Note 3-l, the services provided by the beneficiaries were recognised on an accrual basis by the Group under "Staff Costs", allocating the fair value of the equity instruments delivered over the term of the plan, which led to a charge of EUR 511 thousand to "Staff Costs" in the accompanying consolidated statement of profit or loss for 2017 (see Note 25) (2016: EUR 279 thousand) and a corresponding credit to "Equity - Other Equity Instruments" in the accompanying consolidated statement of financial position as at 31 December 2017.

g) *Valuation adjustments-*

Detail and changes-

The detail of the accounts included in other comprehensive income and of the changes therein in 2017 and 2016 was as follows:

	Thousands of euros			
	Translation differences	Cash flow hedges	Tax effect	Net
Balances at 31 December 2015	**9,979**	**(1,060)**	**274**	**9,193**
Income and expense recognised in the year	1,674	(926)	259	1,007
Transfers to profit or loss	-	(503)	141	(362)
Balances at 31 December 2016	**11,653**	**(2,489)**	**674**	**9,838**
Income and expense recognised in the year	(8,000)	(2,441)	683	(9,758)
Transfers to profit or loss	-	(634)	178	(456)
Balances at 31 December 2017	**3,653**	**(5,564)**	**1,535**	**(376)**

The depreciation of the US dollar and the Indian rupee in 2017 gave rise to a decline in value of the net assets denominated in those currencies, which had an impact on equity of EUR 8,000 thousand. The tax effect relates to the cash flow hedges.

Translation differences-

The Group availed itself of the exemption relating to translation differences in IFRS 1, First-time Adoption of International Financial Reporting Standards and, accordingly, the reserves for translation differences included in other comprehensive income are those generated on or after 1 January 2004.

h) *Dividends and restrictions on the distribution of dividends-*

In 2016 dividends amounting to EUR 3,365 thousand were paid out of profit for 2015, as approved by the Annual General Meeting in May 2016. No dividends were distributed in 2017 and none are expected to be distributed in 2018.

The aforementioned approved dividend distributions out of the profit for 2015 respected the distribution restrictions established in the financing agreements (see Note 18).

i) *Capital management policy-*

The objectives of the Group's capital management are to safeguard its ability to continue operating as a going concern so that it can continue to provide returns to shareholders, benefit other stakeholders and maintain an optimum capital structure to reduce the cost of capital.

In order to maintain and adjust the capital structure, the Group may vary the amounts of the dividends payable to the shareholders, return capital, issue shares or sell assets to reduce debt.

In line with other groups in the industry, TUBACEX controls its capital structure on the basis of its leverage ratio. This ratio is calculated by dividing net financial debt by equity. Net debt is calculated as the total amount of current and non-current interest-bearing loans and other liabilities, less cash and cash equivalents and current financial assets.

The ratios in 2017 and 2016 were calculated by management as follows:

	Thousands of euros	
	2017	2016
Total financial debt (Note 18)	408,454	354,258
Less - Cash and cash equivalents and current financial assets (Notes 11 and 15)	(154,940)	(147,359)
Net debt	**253,514**	**206,899**
Equity	**281,815**	**313,560**
Debt/equity ratio	**90%**	**66%**

The debt/equity ratio increased in 2017 as a result of the increase in the investment in working capital to respond to the backlog at the end of the year and the impact on equity of the impairment losses recognised in the year (see Notes 7 and 11). The Group's aim in 2018 is to reduce the debt/equity ratio by adjusting working capital and through the positive cash flow projections for the coming year.

17. Provisions

Long-term provisions-

The TUBACEX Group has recognised provisions for the estimated amount of tax debts and probable or certain third-party liability arising from litigation in progress, indemnity payments or obligations of an indeterminate amount and collateral and other similar guarantees, the exact amount of which cannot be determined or whose date of payment is uncertain, since this depends on the fulfilment of certain conditions. EUR 2,250 thousand were recognised in this connection at 31 December 2017 and 2016, which was considered an appropriate amount by the directors following completion in February 2016 of the tax inspection conducted in 2015 (see Note 22-d).

Also recognised under this heading are provisions for possible environmental damage totalling EUR 540 thousand (31 December 2016: EUR 628 thousand) (see Note 29).

Short-term provisions-

The changes in "Short-Term Provisions" in 2017 and 2016 were as follows (in thousands of euros):

	Other employee benefits (Note 3-k)	Other short-term provisions	Total
Balance at 31/12/15	**303**	**5,414**	**5,717**
Charge for the year	163	1,752	1,915
Amounts used for their intended purpose	(303)	(1,284)	(1,587)
Reversals	-	(1,794)	(1,794)
Balance at 31/12/16	**163**	**4,088**	**4,251**
Charge for the year	-	2,136	2,136
Amounts used for their intended purpose	(163)	(447)	(610)
Reversals	-	(196)	(196)
Balance at 31/12/17	**-**	**5,581**	**5,581**

"Other Short-Term Provisions" includes provisions for possible contingencies relating to trading relationships totalling EUR 4,477 thousand at 31 December 2017 (31 December 2016: EUR 3,020 thousand). The amount ultimately payable will depend on the final outcome of discussions with the related customers, and the best available information for quantifying it at 31 December 2017 was used.

Guarantees provided-

The TUBACEX Group has provided bank guarantees amounting to EUR 131,843 thousand (2016: EUR 22,593 thousand) to secure the successful completion of certain transactions performed in the ordinary course of its business. The increase is due to the guarantee required under an important contract that was concluded in 2017 (see Notes 13 and 14). The Group's directors consider that the probability of a material liability arising as a result of these guarantees is remote.

18. Non-current and current bank borrowings

The detail of the related headings in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Non-current-		
Bank loans	79,717	164,650
	79,717	**164,650**
Current-		
Debt instruments and other marketable securities	95,636	48,610
European Investment Bank (Note 2-h)	65,000	-
Short-term credit lines and loans	98,683	67,971
Short-term maturities of long-term loans	44,975	39,213
Discounted bills and notes	885	651
Import and export financing	22,524	31,800
Interest	1,034	1,363
	328,737	**189,608**

As in 2015 and 2016, the Tubacex Group launched a commercial paper issue programme through its Parent in the Alternative Fixed-Income Market (MARF), which matured in a maximum of twelve months and had a limit of EUR 100 million. EUR 95,636 thousand were payable in this connection at 31 December 2017 (31 December 2016: EUR 48,610 thousand), and this amount bears interest at approximately 0.37% (the amount payable at 31 December 2016 bore interest at approximately 0.39%). This amount was recognised under "Current Financial Liabilities - Debt Instruments and Other Marketable Securities" under "Current Liabilities" in the accompanying consolidated statement of financial position and gave rise to a borrowing cost of EUR 465 thousand (2016: EUR 285 thousand), which was recognised under "Finance Costs" in the accompanying consolidated statement of profit or loss.

In December 2015, the Tubacex Group was granted a loan of EUR 65 million by the European Investment Bank to finance research projects in the period from 2015 to 2019 as part of the European Commission's Horizon 2020 framework programme. The loan was earmarked for financing a portion of the investments amounting to EUR 134 million in property, plant and equipment and intangible assets at the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación S.A.U. At 31 December 2017, the Group had drawn down this loan, which has a maximum maturity of ten years, in full. The Group's directors consider that the obtainment of this financing is evidence of the market's confidence in the Tubacex Group's Strategic Plan. This contract is subject to a series of clauses that at 31 December 2017 were not being fulfilled and that gave rise, in accordance with generally accepted accounting policies, to the borrowings being classified as a current liability in the accompanying consolidated statement of financial position. The directors consider that in 2018 those clauses will be fulfilled once the financial debt position is reduced by adjusting the investment in working capital (which rose at year-end due to unbilled backlog in progress) and by achieving the projections regarding cash generation and results. At the date of authorisation for issue of these consolidated financial statements, the European Investment Bank had granted a waiver with new financial conditions compared to those initially negotiated that the directors expect to fulfil in the short- and medium-term and that evidence that the borrowings of EUR 65 million recognised as a current liability are not claimable (see Notes 2-h and 31).

The amount recognised for loans and other interest-bearing liabilities approximates their fair value.

The effective weighted average interest of the loans arranged with banks was approximately Euribor + 1.66% in 2017 (2016: Euribor + 1.67%).

The detail of the remaining maturities of the loans and other interest-bearing liabilities under the related agreements at 31 December and 2017 and 2016, taking into consideration the classification as a current liability of the European Investment Bank's loan pursuant to accounting regulations, is as follows:

Maturity	Thousands of euros	
	2017	2016
Within 1 year	328,737	189,608
Within 2 years	39,115	43,934
Within 3 years	25,982	52,114
Within 4 years	11,243	28,982
Within 5 years	2,377	14,242
Other	1,000	25,378
	408,454	**354,258**

A portion of the loans and credit facilities of the Austrian subsidiaries were secured by machinery and inventories with carrying amounts of EUR 8,324 thousand and EUR 69,653 thousand, respectively, at 31 December 2016. This loan was repaid in 2017. Also, the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación, S.A.U. acted as guarantors of this loan from the European Investment Bank.

The Group has been granted foreign trade and other credit facilities with the following limits (in thousands of euros):

	2017		2016	
	Limit	Undrawn amount	Limit	Undrawn amount
Foreign trade credit facilities	45,760	23,236	66,250	34,450
Credit facilities	123,800	25,117	128,150	60,678
Total	**169,560**	**48,353**	**194,400**	**95,128**

The approximate effective weighted average interest on the credit facilities in 2017 was Euribor plus a spread of 1.21% (2016: a spread of 1.14%).

The Group has arranged certain interest rate swaps to exchange the floating rate of several of its credit facilities and loans in order to guarantee a fixed interest rate for the hedged balances (see Note 12).

19. Other non-current financial liabilities

The detail of "Other Non-Current Financial Liabilities" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Non-current-		
Loans repayable at long term	1,939	3,840
Other	6,192	5,305
	8,131	**9,145**

Loans repayable at long term relate to those granted by the Spanish Ministry of Science and Technology to several Group companies, with grace periods of between two and five years in the repayment of the principal, to finance various research and development projects at these Group companies. These loans do not bear interest.

The remaining long-term maturities of these loans under the related agreements at 31 December 2017 and 2016 were as follows:

Maturity	Thousands of euros	
	2017	2016
Within 2 years	706	1,297
Within 3 years	516	1,064
Within 4 years	669	706
Within 5 years	799	517
Other	308	2,072
	2,998	5,656
Less- Effect of discounting	(1,059)	(1,816)
	1,939	**3,840**

In 2017, as well as the reclassification to short term of the repayments due in 2017, approximately EUR 1.7 million were repaid.

At 31 December 2017, "Other" includes a loan granted by the Basque Finance Institute (Instituto Vasco de Finanzas) for EUR 4,573 thousand that matures in 2028 and the long-term finance lease of the industrial building where the subsidiary Tubacex Services, S.L. carries on its activity amounting to EUR 1,570 thousand (see Note 9).

20. Trade and other payables

The detail of "Trade and Other Payables" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Trade payables:		
Third parties	130,857	100,620
Investments accounted for using the equity method (Note 26)	158	187
	131,015	**100,807**
Other payables-		
Remuneration payable	9,659	9,884
Accrued social security taxes payable (Note 22)	2,887	2,802
Payable to public authorities (Note 22)	9,569	10,946
Short-term maturities of repayable loans	-	520
Other	12,153	8,502
	34,268	**32,654**
Current tax liabilities (Note 22)	-	**684**
	165,283	**134,145**

"Trade Payables - Third Parties" includes EUR 65 million advanced by the suppliers through a reverse factoring arrangement, although the Group's account payable was not derecognised, since the maturity date of the third-party billings coincides with the date of payment to the bank of the amount advanced to the third party (31 December 2016: EUR 44 million).

Disclosures on the periods of payment to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 31/2014, of 3 December

Set forth below are the disclosures required by Final Provision Two of Law 31/2014, of 3 December, which were prepared by applying the Spanish Accounting and Audit Institute Resolution of 29 January 2016 to meet the new requirements of the aforementioned Law for the first reporting period ended after its entry into force:

	2017	2016
Average period of payment to suppliers	59	38
Ratio of transactions settled	66	34
Ratio of transactions not yet settled	38	50
Total payments made	187,855	180,476
Total payments outstanding	54,152	60,584

The figures in the preceding table on payments to suppliers by the Parent and the Spanish subsidiaries refer to payments that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to "Trade and Other Payables - Payable to Suppliers" under "Current Liabilities" in the accompanying consolidated statement of financial position.

"Average period of payment to suppliers" means the period of payment or delay in payment of trade payables. This average period of payment to suppliers is calculated as the quotient whose numerator is the sum of the ratio of transactions settled multiplied by the total amount of the payments made and the ratio of transactions not yet settled multiplied by the total amount of outstanding payments, and whose denominator is the result of adding the total amount of the payments made to the total amount of the outstanding payments.

The ratio of transactions settled is calculated as the quotient whose numerator is the result of the sum of the products of multiplying the amounts paid by the number of days of payment (the number of calendar days between the end of the maximum payment period and the date of effective payment of the transaction) and whose denominator is the total amount of the payments made.

Also, the ratio of transactions not yet settled is calculated as the quotient whose numerator is the result of the sum of the products of multiplying the amount of the transactions not yet settled by the number of days in which payment has not been made (the number of calendar days between the end of the maximum payment period and the reporting date) and whose denominator is the total amount of the outstanding payments.

The maximum payment period applicable to the companies with registered office in Spain in 2015 under Law 11/2013, of 26 July, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, is 30 days (except where certain conditions established in the law are met, in which case the maximum payment period can be increased to 60 days).

21. Employee benefit obligations

The changes in the obligations to employees in 2017 and 2016 were as follows (in thousands of euros):

	Hand-over contract obligations (Note 3-k)	Long-term defined benefit obligations (Note 3-k)	Other long-term employee benefits (Note 3-k)	Other	Total
Balances at 31 December 2015	**994**	**7,369**	**4,761**	**427**	**13,551**
Reversals	-	(156)	(730)	(102)	(988)
Expense for the year (Note 25)	289	1,465	292	183	2,229
Benefits paid	(1,078)	(1,705)	(111)	-	(2,894)
Transfers to short term	(205)	-	-	-	(205)
Balances at 31 December 2016	-	**6,973**	**4,212**	**508**	**11,693**
Reversals	-	-	(2,851)	(146)	(2,997)
Expense for the year (Note 25)	-	1,498	90	270	1,858
Benefits paid	-	(1,806)	(65)	(20)	(1,891)
Balances at 31 December 2017	-	**6,665**	**1,386**	**612**	**8,663**

Long-term defined benefit obligations

This heading includes certain statutory obligations to the employees of the SBER subgroup who joined the company prior to 1 January 2003 and that will arise on the date of retirement or when they leave the company for other reasons, pursuant to current legislation in Austria.

The total liability accruing on this defined benefit plan was calculated by means of accepted actuarial methods, taking into account the mortality assumptions based on the most recent tables in Austria, and amounted to EUR 6,665 thousand for 31 December 2017 (31 December 2016: EUR 6,973 thousand).

The discount rate applied was 1.5% (2016: 1.5%) and the salary increase rate assumption was 3% (2016: 2.6%).

Other long-term employee benefits

As indicated in Note 3-k, on 25 March 2013 the Parent's Board of Directors approved an incentive plan for the members of the Group's Management Committee who form part of the Group's senior management (see Note 25), which includes the right to receive a multiannual bonus to be calculated as a percentage of the increase in the company's value between 31 December 2012 and 31 December 2017.

The company's value is defined on the basis of a formula the variables of which are directly linked to the achievement of the objectives of the 2013-2017 Strategic Plan.

Also included is the estimate of the accrued amounts payable in the future for certain retirement bonuses to the employees of the SBER subgroup payable upon completing 25, 35 and 40 years of service to the company and consisting of one, two and three months' salary, respectively.

Under certain circumstances, Austrian employment legislation allows employees who meet certain conditions to take partial retirement. Employees who avail themselves of this arrangement work 50% of the working day until the date of retirement and are paid 75% of their salary for a full working day, the additional 25% of the salary being borne by the Austrian social security system.

According to the directors' best estimates, the liability accrued in this connection at 31 December 2017 amounted to EUR 1,386 thousand (31 December 2016: EUR 4,212 thousand), which was recognised with a credit to "Staff Costs" in the accompanying consolidated statement of profit or loss for 2017 amounting to EUR 2,761 thousand (see Note 25) and a charge to "Non-Current Liabilities - Employee Benefit Obligations" in the accompanying consolidated statement of financial position as at 31 December 2017.

22. Tax matters

At the General Meeting on 29 May 2013, the shareholders of the Parent approved the inclusion in a consolidated tax group of the Parent and certain subsidiaries located in the Basque Country and subject to Álava income tax legislation for the purpose of filing consolidated income tax returns from 1 January 2014 in accordance with Chapter VI of Title VI of Álava Income Tax Regulation 37/2013, of 13 December.

The consolidated tax group (no. 01/14/A) is made up of Tubacex, S.A., as the Parent, and the Group companies Acería de Álava, S.A.U., Tubacex Tubos Inoxidables, S.A.U., Tubacex Taylor Accesorios, S.A.U., Tubacex Services Solutions, S.A.U., Tubacoat, S.L., Red Distribuidora de Tubos y Accesorios, S.A.U., CFT Servicios Inmobiliarios, S.A.U. and Tubos Mecánicos Norte, S.A.U. In 2016 Tubacex Advanced Solutions, S.L.U., Tubacex Services Solutions Holding, S.L.U. and Tubacex Upstream Technologies, S.A. were included in the scope of consolidation and in tax group number 01/14/A from the year of incorporation, i.e. from the year beginning 1 January 2016.

In future months an amendment to the Álava Income Tax Regulation is expected to be approved which will be effective for tax periods beginning on or after 1 January 2018. At the date of these consolidated financial statements, the most important changes are expected to be:

- The introduction of a quantitative limit on the offset of tax losses of 50% of the taxable profit before offset of tax losses (at present, the only quantitative limit on the offset of tax losses is the taxable profit of taxpayer), although the time limit for offset is extended to 30 years (at present it is 15 years). These limitations will be applicable from 2018, and will apply to the tax loss carryforwards arising in years prior to the entry into force of the reform;

- The reduction of the standard tax rate from 28% to 24%, with a transitional rate of 26% applicable in 2018.

- The reduction of the quantitative limit applicable to tax credits to incentivise the performance of certain activities, excluding tax credits for research and development and technological innovation, from 45% to 35% of the net tax payable, although the time limit for their use is extended from 15 to 30 years. As in the case of the tax losses, this amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;

- The introduction of a quantitative limit of 70% of the net tax payable applicable to the use of tax credits -there was no limit prior to the reform- although the time limit for their use is extended from 15 to 30 years. Should the taxpayer take in the same income tax return tax credits affected by the 35% limit of the net tax payable and tax credits affected by the 70% limit of the net tax payable, the latter tax credits must be taken with the quantitative limit of 70% of the net tax payable after having taken the tax credits affected by the 35% limit. This amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;

- The extension of the time limit to take the double taxation tax credits from 15 to 30 years. As in the case of the other tax credits, the extension of the time limit to take these tax credits is applicable from 2018, and would also apply to double taxation tax credits reported by the taxpayer in the years prior to the entry into force of the reform. The reform has not introduced any quantitative limit on the use of double taxation tax credits and, therefore, the only limit applicable thereto will be the taxpayer's gross tax payable;

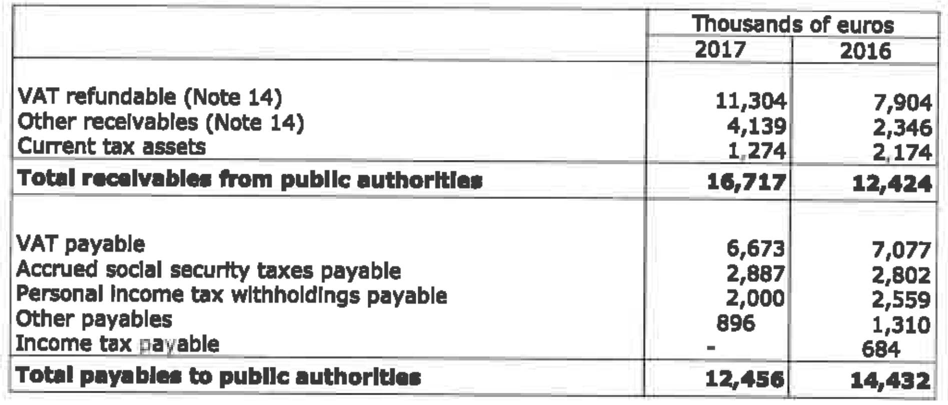
- The introduction of the obligation to make a tax prepayment of 5% of the taxable profit of the last year, the deadline for filing the tax return of which ended on 1 October of the year in progress; and

- The increase of the minimum tax rate from 13% to 17% of taxable profit (transitional rate of 15% in 2018).

Any effects arising from these changes will be recognised prospectively in the year in which they are approved.

a) *Current receivables from and payables to public authorities*

The detail of the current receivables from and payables to public authorities is as follows (in thousands of euros):



	Thousands of euros	
	2017	2016
VAT refundable (Note 14)	11,304	7,904
Other receivables (Note 14)	4,139	2,346
Current tax assets	1,274	2,174
Total receivables from public authorities	**16,717**	**12,424**
VAT payable	6,673	7,077
Accrued social security taxes payable	2,887	2,802
Personal income tax withholdings payable	2,000	2,559
Other payables	896	1,310
Income tax payable	-	684
Total payables to public authorities	**12,456**	**14,432**

b) *Reconciliation of the accounting loss to the tax loss*

The consolidated income tax expense recognised in 2017 and 2016 was as follows:

	Thousands of euros	
	2017	2016
Current tax	(13,671)	(2,905)
Deferred taxes-		
Origination and reversal of temporary differences	(1,304)	(1,086)
	(14,975)	**(3,991)**

The reconciliation of the consolidated loss before tax to the income tax benefit is as follows:

	Thousands of euros	
	2017	2016
Consolidated loss before tax	(39,083)	(5,554)
Cumulative income tax expense at the tax rate of the Parent (28%)	(10,943)	(1,555)
Permanent differences and consolidation adjustments	(2,776)	(605)
Difference due to tax rates of subsidiaries	263	1,167
Current year tax credits and tax relief	(1,304)	(1,086)
Adjustment of prior years' taxes	(215)	(1,912)
Total consolidated tax expense (benefit) recognised	**(14,975)**	**(3,991)**

The adjustment of prior years' taxes relates to the recognition of tax credits from 2016 in the Álava consolidated tax group.

The nature of the tax credits recognised in 2017 is as follows:

	Thousands of euros	
	2017	2016
Investments in new non-current assets and research and development	1,304	1,081
Other	-	5
	1,304	**1,086**

c) Deferred tax assets and liabilities

The detail at 31 December 2017 and 2016 of the deferred tax assets and liabilities is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Due to provisions and other items	3,327	3,682	-	-
Due to other items	4,127	3,252	(7,310)	(5,481)
Tax loss carryforwards	32,882	20,680	-	-
Unused tax credits and tax relief	28,669	26,473	-	-
Revaluation of assets (Note 2-f)	-	-	(9,338)	(11,088)
	69,005	54,087	(16,648)	(16,569)
Derivative financial instruments	1,515	795	(41)	(5)
	70,520	**54,882**	**(16,689)**	**(16,574)**

In recognising deferred tax assets the Group bears in mind the following:

- The Group considers it more than likely that sufficient profits will be made in the future to enable it to offset the tax loss carryforwards recognised and, in this connection, the plan drawn up by the Group forecasts an increase in productivity, in sales volumes and, accordingly, in the profitability of the Group's core business. The Group will go ahead with the strategic investments envisaged in its 2013-2017 Strategic Plan (see Note 2-f.), with the consolidation of new high-value-added products in the oil, gas, electricity production and nuclear energy industries, which ensure a highly robust competitive position, now that the international crisis has been overcome.

- The business plan used by the Group to make the estimates that justify and support the recoverability of its deferred tax assets is in line with the market scenario and the specific features of the business. The outlook, by tax business unit, would be as follows:

  - The entrance of an important order for companies filing consolidated tax returns under the Álava income tax regulation will contribute to the recoverability of tax assets recognised by that consolidated tax group (31 December 2017: EUR 45 million).

  - In turn, there is no time limit for the recovery of the tax assets generated in Austria (31 December 2017: EUR 15 million), the recovery of which is linked to compliance with the Industrial Plan explained in Note 7.

  - The tax assets generated in Italy (31 December 2017: EUR 5 million) are expected to be recovered in a short time horizon, based on the company's history of obtaining taxable profit and the Group's outlook for this component.

- Based on the foregoing, Group management considers that the recognition of these tax assets is justified and that they will be used in a period not exceeding ten years or, in any case, within the statutory time periods. The Group's directors consider this criterion to be appropriate. Also, the entry into force of new developments in the territorial tax legislation described above is not expected to have an impact on the recoverability of the deferred tax assets of the Álava consolidated tax group.

The detail, by type, of the changes in deferred tax assets and liabilities recognised against the income tax benefit/expense in the consolidated statement of profit or loss, is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Due to provisions and other items	(355)	243	-	-
Due to other items	875	824	(1,829)	(405)
Tax loss carryforwards	12,202	333	-	-
Unused tax credits and tax relief	2,196	1,569	-	-
Revaluation of assets included in the scope of consolidation (Note 2-f)	-	-	1,750	1,154
Total	**14,464**	**2,969**	**(79)**	**749**

The most significant increase arose due to the losses incurred in the Álava consolidated tax group as a result of the significant impairment losses recognised in the year (tax asset of EUR 6,440 thousand generated) and the operating losses of the Austrian and Italian components which gave rise to tax loss carryforwards recognised under "Deferred Tax Assets" amounting to EUR 3,463 thousand and EUR 2,638 thousand, respectively. Also, the deferred tax liabilities relating to obligations to employees decreased mainly as a result of exchange rate fluctuations amounting to EUR 483 thousand (2016: an increase of EUR 345 thousand).

The decrease in "Due to Obligations to Employees" was a result of the payments made in relation to the liabilities disclosed in Note 21.

Also, at 31 December 2015, the deferred tax liabilities resulted from the revaluation of the assets arising from the purchase price allocation of IBF, S.p.A., with a corresponding deferred tax liability of EUR 13,816 thousand and a reversal of EUR 626 thousand in 2017 based on the depreciation and amortisation charge for the year (2016: EUR 1,154 thousand). Also, the impairment losses recognised on intangible assets due to the agreement with the strategic customer (see Note 7) and the impairment of the financial asset at C.F.F. Srl (see Note 11) gave rise to the reversal of an additional amount of the deferred tax liabilities totalling EUR 672 thousand and EUR 452 thousand, respectively, at 31 December 2017.

Lastly, the recognition at consolidated level of the construction contract by reference to the stage of completion (see Notes 13 and 14), gave rise to a tax liability of EUR 2.2 million.

Tax loss carryforwards

The detail of the tax loss carryforwards recognised in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

Year incurred	2017	2016
2009	402	741
2010	4,385	4,385
2011	4,482	4,482
2012	535	535
2013	950	950
2015	3,749	3,749
2016	5,838	5,838
2017	12,541	-
	32,882	**20,680**

Of the total tax loss carryforwards, EUR 7 million were incurred at Álava companies prior to forming part of the consolidated tax group the last year for offset of which is 2028, and EUR 6 million were incurred in the consolidated tax group in 2017 the last year for offset of which is 2031. Also, the Austrian subsidiary has recognised EUR 15 million of tax loss carryforwards the recovery of which is not subject to any time limit under the tax legislation of that country. Lastly, the Italian subsidiary has incurred EUR 4 million of tax loss carryforwards in the last two years.

Unused tax credits and tax relief

The detail of the tax credits and tax relief recognised in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016, all of which were generated at the consolidated tax group in Álava, is as follows:

Year generated	2017	2016	Last year for deduction
2001	12	12	2028
2002	11	245	2028
2003	1,143	1,143	2028
2004	1,039	1,039	2028
2005	1,258	1,258	2028
2006	650	650	2028
2007	710	710	2028
2008	940	940	2028
2009	2,028	2,030	2028
2010	2,632	2,605	2028
2011	4,002	3,960	2028
2012	2,997	2,853	2028
2013	4,701	4,528	2028
2014	1,032	717	2029
2015	2,697	2,697	2030
2016	1,513	1,086	2031
2017	1,304	-	2032
	28,669	**26,473**	

The tax credits generated prior to 2013 (EUR 21,973 thousand) must be recovered on an individual basis by each company that generated them prior to joining the consolidated tax group. Of these tax credits, EUR 8,218 thousand relate to double taxation tax credits and EUR 9,717 thousand to tax credits with a limit.

The total amount of current and deferred income tax, relating to items directly charged or credited to other comprehensive income in 2017 and 2016, is as follows:

	Thousands of euros	
	2017	2016
Cash flow hedges (Note 12)	861	400

d) *Years open for review and tax audits*

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2017 year-end part of the Group had 2012 and subsequent years open for review by the tax authorities for income tax, VAT and direct personal income tax withholdings from residents, and the last four years open for all other taxes applicable to it. All the tax credits and tax losses arising in prior years may be reviewed with a ten year statute-of-limitations when they are used in any of the years open for review. However, the taxes for the years of the companies that were subject to the tax audit that was completed in February 2016 are not open for review. The following taxes were subject to the audit:

- Income tax, VAT, and direct personal income tax withholdings from residents for 2010 to 2013.
- Non-statute-barred taxable events relating to non-resident income tax withholdings and transfer tax.

The Group's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying consolidated financial statements.

Pursuant to the income tax legislation in Álava where the Parent is domiciled, if under the applicable rules for calculating the tax base the latter is negative, its amount may be offset without any time limit in Álava and Vizcaya (18 years initially and successively after the year in which the loss was incurred at companies with registered offices in other parts of Spain except for Guipúzcoa and Navarre), for which the amount may be apportioned in the proportion deemed fit. The tax loss will be offset when the income tax return is filed, without prejudice to the tax authorities' inspection powers. However, with effect from 1 January 2014, on the approval of Álava Income Tax Regulation 37/2013, of 13 December, a 15-year time limit was established for offsetting tax losses (those generated both prior and subsequent to the date of entry into force of the Regulation). The Group's directors consider that this tax legislation does not have an impact on the recoverability of the tax loss and tax credit carryforwards that it had recognised at 31 December 2017, since it estimates their recovery within ten years, in accordance with current accounting legislation.

The legislation for the settlement of 2016 income tax applicable to Tubacex, S.A., Acería de Álava, S.A.U., Comercial de Tubos y Accesorios Especiales, S.A.U., Tubacex Taylor Accesorios, S.A.U., Tubacex Tubos Inoxidables, S.A.U., Tubos Mecánicos Norte, S.A.U. Tubacex Advance Solutions S.L.U., Tubacex Services Solutions Holding S.L.U. and Tubacex Upstream S.A. is Álava Regulation 24/1996, of 5 July, which was in force at 31 December 2016, despite the various appeals filed in this connection, on which a final decision has not yet been issued.

23. Earnings per share

a) *Basic earnings per share-*

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to the Parent's shareholders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

	2017	2016
Earnings attributable to the Parent's ordinary shareholders	(19,710)	507
Weighted average number of ordinary shares outstanding (Note 16)	129,835,807	129,835,807
Basic earnings per share (euros)	(0.1518)	0.0039

The average number of ordinary shares outstanding was calculated as follows:

Ordinary shares outstanding at 1 January 2017 and 2016	132,978,782
Effect of treasury shares (Note 16)	(3,142,975)
Weighted average number of ordinary shares outstanding at 31 December 2017 and 2016	**129,835,807**

b) *Diluted earnings per share-*

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all the dilutive potential ordinary shares. The Parent does not have any dilutive potential ordinary shares.

24. Other operating income and expenses

The detail of "Other Operating Income" in the accompanying consolidated statements of profit or loss for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Grants related to income	25	979
Transfer of grants to profit or loss (Note 3-a)	477	1,020
Other income	6,003	11,133
	6,505	**13,132**

In 2016,"Other Income" included, inter alia, the sale of technology to Jilin Sino Italy Nuclear Piping Components Manufacturing Co Ltd for EUR 5.9 million (see Note 11) and the sale of land by the subsidiary Tubacex Taylor Accesorios, S.A. (see Note 8) and works of art by Tubacex, S.A. (see Note 7), which generated income of EUR 0.8 million.

The detail of "Other Operating Expenses" in the accompanying consolidated statements of profit or loss for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Operating lease expenses	2,061	1,907
Repair and upkeep expenses	17,923	16,232
Independent professional services	9,776	8,806
Transport	13,613	10,488
Insurance premiums	3,039	2,652
Utilities	32,712	38,043
Taxes other than income tax	662	521
Other expenses	19,704	18,332
Change in operating allowances (Note 14)	(133)	(289)
	99,357	**96,692**

25. Staff costs

The detail of "Staff Costs" in 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Wages, salaries and similar expenses	89,204	87,813
Contributions to pension plans	1,376	1,822
Social security costs	30,154	28,921
Other employee benefit costs	3,471	3,287
Provisions for employee benefits and long-term incentive plan (Notes 16-f and 21)	(2,761)	(300)
	121,444	**121,543**

The average number of Group employees, by professional category, in 2017 and 2016 was as follows:

Professional category	2017	2016
Senior executives	10	10
Line personnel and middle management	242	231
Clerical staff	517	423
Manual workers	1,545	1,553
Total	**2,314**	**2,217**

Also, the distribution of the workforce, by gender and category, at the end of 2017 and 2016 was as follows:

Professional category	2017		2016	
	Men	Women	Men	Women
Senior executives	10	-	10	-
Graduates	116	50	107	35
Line personnel and middle management	151	35	145	37
Clerical staff	333	115	250	111
Manual workers	1,480	117	1,505	75
Total	**2,090**	**317**	**2,017**	**258**

At 31 December 2017, the Parent's Board of Directors comprised two women and nine men (31 December 2016: two women and ten men).

At 31 December 2017, the Group does not have any disabled employees.

26. Related party transactions and balances

Related party transactions

The detail of the transactions with related parties in 2017 and 2016 the effects of which were not eliminated on consolidation (see Note 10) is as follows:

2017

	Revenue	Procurements	Other operating expenses
Schoeller-Bleckmann Group	-	-	917
CFF SRL	16	-	14
Coprosider	936	147	11
Frontier Solutions	-	-	1,207
Prakash Pvt Ltd	504	-	-
	1,456	**147**	**2,149**

2016

	Revenue	Procurements	Other operating expenses
Schoeller-Bleckmann Group	-	-	1,713
CFF SRL	16	146	-
Coprosider	1,430	303	-
Frontier Solutions	-	-	1,166
Prakash Pvt Ltd	1,386	-	-
	2,832	**449**	**2,879**

Related party balances

The detail of the related party balances in the consolidated statements of financial position as at 31 December 2017 and 2016 is as follows (in thousands of euros):

2017

	Balances receivable		Balances payable
	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
Schoeller-Bleckmann Group	-	285	(138)
CFF SRL	-	5	(18)
Coprosider	643	59	(2)
Frontier Solutions	82	-	-
Awaji Materia	910	-	-
Other	21	-	-
	1,656	**349**	**(158)**

2016

	Balances receivable		Balances payable
	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
Schoeller-Bleckmann Group	-	8	(156)
CFF SRL	-	5	(18)
Coprosider	643	589	(13)
Frontier Solutions	80	-	-
	723	**602**	**(187)**

Also, at 31 December 2017, there was a balance receivable from Prakash Steelage Pvt Ltd (a company with a non-controlling interest in Tubacex Prakash India Pvt Ltd) of EUR 2,181 thousand (31 December 2016: EUR 587 thousand) relating to an advance for the purchase of land.

27. Remuneration of executives

The remuneration earned by the key executives in the years ended 31 December 2017 and 2016 was as follows:

	Thousands of euros	
	2017	2016
Current employee remuneration, executives	2,220	2,053
Post-employment benefits	129	136
	2,349	**2,189**

Also, as a result of the introduction of a long-term incentive plan for the senior executives approved by the General Meeting on 25 May 2016 (see Notes 3-k, 3-l, 16 and 21), the executives earned EUR 511 thousand in relation to the share option plan. A provision of EUR 2.7 million was reversed in connection with the incentive plan (see Notes 3-l. and 21). At 31 December 2017 and 2016, the Group's senior executives did not have any balances relating to advances or loans. "Post-Employment Benefits" relate mainly to contributions to a defined contribution plan at an employee benefit entity (EPSV).

At 31 December 2017, an interest-free loan of USD 50 thousand which matures in two years had been granted to a senior executive.

28. Disclosures relating to the Parent's directors

a) Remuneration of and balances with the Parent's directors-

In 2017 the members of the Board of Directors earned remuneration amounting to EUR 853 thousand (2016: EUR 911 thousand) in the form of fixed fees and fees for attending the Board meetings.

These amounts do not include in any case the additional remuneration earned by directors who perform representative or executive tasks, which in 2017 amounted to EUR 752 thousand (2016: EUR 676 thousand), of which EUR 33 thousand related to post-employment benefits (primarily contributions to a defined contribution plan at an employee benefit entity) (2016: EUR 33 thousand).

Lastly, in 2017, as in 2016, the members of the Board of Directors did not earn any attendance fees and bylaw-stipulated directors' emoluments in relation to directorships of other consolidated Group companies.

At 31 December 2017 and 2016, the directors did not have any balances relating to advances or loans from the Group.

At 31 December 2017 and 2016, the Group did not have any pension or life insurance obligations to the former or current members of the Parent's Board of Directors, and it had not assumed any obligations in the form of guarantees provided on their behalf.

The insurance premium of EUR 22 thousand in 2017 (2016: EUR 22 thousand) relates to the directors' third-party liability insurance policy.

b) *Transactions performed outside the normal course of business or not on an arm's length basis by the Parent's directors-*

In 2017 the Parent's directors did not perform any transactions with the Company or the Group companies that were outside the normal course of business or were not on an arm's length basis.

c) *Ownership interests and positions held in other companies by the Parent's directors and persons related to them-*

At the end of 2017, none of the members of the Board of Directors of Tubacex, S.A., or individuals related to them, as provided for in the Spanish Limited Liability Companies Law, had entered into relationships with other companies which, due to their activities, were in conflict with their or the Parent's interests, and neither were the Board of Directors or the other directors informed of any situation of conflict of interest in accordance with Article 229 of the aforementioned law. Accordingly, these consolidated financial statements include no disclosures in this connection.

29. Information on the environment

The Group's operations are governed by the laws on environmental protection ("environmental laws") and workers' safety and health ("occupational safety laws"). The Group considers that such laws are substantially complied with and it also has procedures in place aimed at fostering and ensuring compliance.

In the year ended 31 December 2017, the Group made investments for a net amount of approximately EUR 2,422 thousand (2016: EUR 2,528 thousand) and incurred expenses of EUR 2,091 thousand (2016: EUR 2,100 thousand) in environmental protection, consisting mainly of the removal of acids, repairs and upkeep, as well as advisory and audit services provided by independent professionals.

The Group did not receive any grants related to environmental protection in 2017 or 2016.

At 31 December 2017, except for a provision totalling EUR 540 thousand recognised under "Long-Term Provisions" in the accompanying consolidated statement of financial position (2016: EUR 628 thousand) relating to one of the subsidiaries domiciled in the US to cover the risk of water pollution (see Note 17), the amount of which was appraised by an independent valuer, the Group had not recognised any other provisions for possible environmental risks, since the directors consider that there are no material contingencies relating to possible lawsuits, indemnification or similar circumstances.

30. Fees paid to auditors

In 2017 the fees for financial audit and other services provided by the auditor of the Group's consolidated financial statements, Deloitte, S.L., or by firms in the Deloitte organisation, and the fees billed by the auditors of the separate financial statements of the consolidated companies, and by companies related to these auditors as a result of a relationship of control, common ownership or common management, were as follows, without regard to when they are billed (in thousands of euros):

	2017	2016
Audit services	376	370
Other attest services	38	28
Total audit and related services	**414**	**398**
Tax advisory services	124	125
Other services	-	50
Total audit and related services	**538**	**573**

Also, the fees billed by other auditors for audit services in 2017 amounted to EUR 58 thousand (2016: EUR 95 thousand).

31. Events after the reporting period

At the date of authorisation for issue of these consolidated financial statements, the European Investment Bank had granted a waiver with new financial conditions compared to those initially negotiated that the directors expect to be fulfilled in the short- and medium-term and that evidence that the borrowings of EUR 65 million recognised as a current liability are not claimable (see Notes 2-h and 18).

32. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

TUBACEX, S.A. AND SUBSIDIARIES

INFORMATION RELATING TO THE SUBSIDIARIES IN THE YEAR ENDED 31 DECEMBER 2017

Company	Location	Line of business	Auditor	Percentage of ownership			Thousands of euros					
				Direct	Indirect	Total	Share capital	Reserves and other equity items	Profit (Loss)	Interim dividend	Profit (Loss) from operations	Total shareholders' equity
Acería de Alava, S.A.U.	Álava (Spain)	Manufacture of steel	Deloitte	99.99	-	99.99	7,300	42,901	3,946	-	5,694	54,147
Tubacex Services Solutions Holding, S.L.U.	Álava (Spain)	Marketing of tubes		100.00	-	100.00	31,183	(10)	(19)	-	(22)	34,055
Tubacex Services Solutions, S.A.U.	Álava (Spain)	Marketing of tubes	Deloitte	-	100.00	100.00	1,142	8,023	780	-	1,247	9,945
Tubos Mecánicos, S.A.U. (subgroup)	Barcelona (Spain)	Manufacture and marketing of carbon steel tubes	Deloitte	-	100.00	100.00	5,437	22,601	2,110	-	2,827	30,147
Tubos Mecánicos Norte, S.A.U.	Álava (Spain)	Marketing of carbon steel tubes	Deloitte	-	100.00	100.00	Included in the Tubos Mecánicos subgroup					
Tubacex America, Inc.	Houston (US)	Marketing of tubes	n/a	-	100.00	100.00	1	3,620	(925)	-	(835)	2,696
Metaux Inox Services, S.A.S.	Soissons (France)	Marketing of tubes	Deloitte	-	100.00	100.00	500	2,089	369	-	616	2,958
Tubacex India Pvt Ltd	India	Marketing	n/a	-	100.00	100.00	550	(125)	(96)	-	296	329
Tubacex Services Solutions Austria GmbH	Ternitz (Austria)	Marketing of tubes	n/a	100.00	-	100.00	35	(77)	2,417	-	2,488	2,375
Tubacex Services Solutions Do Brasil Participacoes Ltda	Sao Paulo (Brazil)	Marketing of tubes	n/a	50.00	50.00	100.00	28	72	(615)	-	(423)	(515)
CFT Servicios Inmobiliarios, S.A.U.	Álava (Spain)	Marketing of tubes	n/a	100.00	-	100.00	60	1,099	-	-	-	1,159
Red Distribuidora de Tubos y Accesorios, S.A.U. (R.T.A.)	Álava (Spain)	Marketing of tubes	n/a	100.00	-	100.00	76	4,708	130	-	70	4,877
Schoeller - Bleckmann Edelstahlrohr Inmobilien AG	Ternitz (Austria)	Property development	Deloitte	100.00	-	100.00	70	4,186	326	-	341	4,582
Schoeller - Bleckmann Edelstahlrohr AG (subgroup)	Ternitz (Austria)	Manufacture and marketing of tubes	Deloitte	100.00	-	100.00	3,500	25,916	96	-	2,361	32,945
Schoeller - Bleckmann Technisches Service GmbH	Ternitz (Austria)	Technical assistance services	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller - Bleckmann Technisches Service GmbH & Co. KG	Ternitz (Austria)	Technical assistance services	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller - Bleckmann Edelstahlrohr Deutschland GmbH	Düsseldorf (Germany)	Marketing of tubes	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller - Bleckmann Tube France	Paris (France)	Marketing of tubes	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Salem Inc.	Pennsylvania (US)	Manufacture of tubes	Grossman Yanak & Ford	-	100.00	100.00	18,093	23,659	1,051	-	(376)	42,803
Tubacex Taylor Accesorios, S.A.U.	Álava (Spain)	Manufacture of components	Deloitte	100.00	-	100.00	8,891	5,160	(1,135)	-	(1,870)	12,916
Tubacex Tubos Inoxidables, S.A.U.	Álava (Spain)	Manufacture and marketing of tubes	Deloitte	100.00	-	100.00	15,028	48,974	(2,931)	-	(5,197)	61,071
Tubacex Innovación, AIE	Álava (Spain)	Innovation	n/a	91.67	8.33	100.00	6	(882)	849	-	974	(27)
Tubacoat, S.L.	Vizcaya (Spain)	Industrial development and marketing of long steel products	n/a	100.00	-	100.00	30	(415)	(46)	-	(16)	142
Tubacex Services, S.L.	Cantabria (Spain)	Manufacture and marketing of special steel tubes	n/a	81.00	-	81.00	3,704	2,357	(424)	-	(357)	5,720
IBF, S.p.A.	Italy	Manufacture of high-end fittings	Deloitte	65.00	-	65.00	15,000	19,590	(8,225)	-	(8,750)	26,164
Tubacex Awaji Thailand	Thailand	Manufacture of fittings	n/a	-	40	40	4,684	(35)	(110)	-	(110)	4,539
Tubacex Prakash India Pvt Ltd	India	Manufacture and marketing of special steel tubes	Deloitte	67.53	-	67.53	1,413	35,544	607	-	810	37,564
Tubacex Upstream Technologies, S.A.	Vizcaya (Spain)	Manufacture and marketing of special steel tubes	n/a	80.000	-	80.000	1,000	(192)	105	-	(392)	913
Tubacex Advance Solutions, S.L.U.	Vizcaya (Spain)	Marketing of tubes	n/a	100.00	-	100.00	3	-	(1)	-	(1)	2
Tubacex Europe	The Netherlands	Marketing of tubes	n/a	100.00	-	100.00	16	71	46	-	56	133
Tubacex Logistics, S.A.U.	Leioa (Vizcaya)	Transport and logistics	n/a	70.00	-	70.00	60	-	(63)	-	63	123
Tubacex Italia	Milan (Italy)	Marketing of tubes	n/a	100.00	-	100.00	93	217	-	-	-	217

This Appendix is an integral part of Note 1 to the consolidated financial statements for 2017 and should be read in conjunction therewith.

TUBACEX, S.A. AND SUBSIDIARIES

INFORMATION RELATING TO THE SUBSIDIARIES IN THE YEAR ENDED 31 December 2016

				Percentage of ownership			Thousands of euros					
Company	Location	Line of business	Auditor	Direct	Indirect	Total	Share capital	Reserves and other equity items	Profit (Loss)	Interim dividend	Profit (Loss) from operations	Total shareholders' equity
Acería de Alava, S.A.U.	Álava (Spain)	Manufacture of steel	Deloitte	99.99	-	99.99	7,300	39,598	6,501	-	8,445	53,399
Tubacex Services Solutions Holding, S.L.U.	Álava (Spain)	Marketing of tubes		100.00	-	100.00	31,183	-	(5)	-	(5)	31,178
Comercial de Tubos y Accesorios Especiales, S.A.U.	Álava (Spain)	Marketing of tubes	Deloitte	-	100.00	100.00	1,142	8,131	(212)	-	179	9,061
Tubos Mecánicos, S.A.U. (subgroup)	Barcelona (Spain)	Manufacture and marketing of carbon steel tubes	Deloitte	-	100.00	100.00	5,437	21,262	1,772	-	1,688	28,471
Tubos Mecánicos Norte, S.A.U.	Álava (Spain)	Marketing of carbon steel tubes	Deloitte	-	100.00	100.00	Included in the Tubos Mecánicos subgroup					
Tubacex America, Inc.	Houston (US)	Marketing of tubes	n/a	-	100.00	100.00	1	4,871	(814)	-	(1,003)	4,058
Metaux Inox Services, S.A.S.	Soissons (France)	Marketing of tubes	KPMG	-	100.00	100.00	500	2,071	18	-	68	2,589
Tubacex India Pvt Ltd	India	Marketing	n/a	-	100.00	100.00	550	(302)	202	-	202	450
CFT Servicios Inmobiliarios, S.A.U.	Álava (Spain)	Marketing of tubes	n/a	100.00	-	100.00	60	1,099	-	-	-	1,159
Red Distribuidora de Tubos y Accesorios, S.A.U. (R.T.A.)	Álava (Spain)	Marketing of tubes	n/a	100.00	-	100.00	76	4,615	92	-	74	4,783
Schoeller - Bleckmann Edelstahlrohr Inmobilien AG	Ternitz (Austria)	Property development	Deloitte	100.00	-	100.00	70	3,997	190	-	184	4,257
Schoeller - Bleckmann Edelstahlrohr AG (subgroup)	Ternitz (Austria)	Manufacture and marketing of tubes	Deloitte	100.00	-	100.00	3,500	39,594	(13,447)	-	(16,178)	29,647
Schoeller - Bleckmann Technisches Service GmbH	Ternitz (Austria)	Technical assistance services	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller - Bleckmann Technisches Service GmbH & Co. KG	Ternitz (Austria)	Technical assistance services	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller - Bleckmann Edelstahlrohr Deutschland GmbH	Düsseldorf (Germany)	Marketing of tubes	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller - Bleckmann Tube France	Paris (France)	Marketing of tubes	Deloitte	-	100.00	100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Salem Inc.	Pennsylvania (US)	Manufacture of tubes	Grossman Yanak & Ford	-	100.00	100.00	18,093	30,547	(1,156)	-	(1,453)	47,484
Tubacex Taylor Accesorios, S.A.U.	Álava (Spain)	Manufacture of components	Deloitte	100.00	-	100.00	8,891	6,226	(933)	-	(959)	14,184
Tubacex Tubos Inoxidables, S.A.U.	Álava (Spain)	Manufacture and marketing of tubes	Deloitte	100.00	-	100.00	15,028	34,753	13,250	-	17,241	63,032
Tubacex Innovación, AIE	Álava (Spain)	Innovation	n/a	91.67	8.33	100.00	6	(1,323)	441	-	441	(876)
Tubacoat, S.L.	Vizcaya (Spain)	Industrial development and marketing of long steel products	n/a	100.00	-	100.00	30	(162)	(253)	-	(340)	(385)
Tubacex Services, S.L.	Cantabria (Spain)	Manufacture and marketing of special steel tubes	n/a	81.00	-	81.00	3,704	2,716	(427)	-	(348)	5,993
IBF, S.p.A.	Italy	Manufacture of high-end fittings	Deloitte	65.00	-	65.00	15,000	22,662	(3,037)	-	(2,828)	34,625
Tubacex Prakash India Pvt Ltd	India	Manufacture and marketing of special steel tubes	Deloitte	67.53	-	67.53	1,413	36,517	628	-	889	38,558
Tubacex Upstream Technologies, S.A.	Vizcaya (Spain)	Manufacture and marketing of special steel tubes	n/a	80.000	-	80.000	1,000	-	(191)	-	(266)	809
Tubacex Advance Solutions, S.L.U.	Vizcaya (Spain)	Marketing of tubes	n/a	100.00	-	100.00	3	-	(1)	-	(1)	2
Tubacex Services Solutions Austria GmbH	Ternitz (Austria)	Marketing of tubes	n/a	100.00	-	100.00	35	-	(77)	-	(74)	(42)
Tubacex Services Solutions Do Brasil Participacoes Ltda	Sao Paulo (Brazil)	Marketing of tubes	n/a	50.00	50.00	100.00	28	-	16	-	7	46
Tubacex Europe	The Netherlands	Marketing of tubes	n/a	100.00	-	100.00	11	(7)	65	-	65	69
Tubacex Italia	Milan (Italy)	Marketing of tubes	n/a	100.00	-	100.00	93	26	98	-	98	217

This Appendix is an integral part of Note 1 to the consolidated financial statements for 2016 and should be read in conjunction therewith.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Tubacex, S.A. and Subsidiaries composing the TUBACEX Group

Consolidated Directors' Report for the year ended 31 December 2017

In 2017 the global economy maintained a strong growth dynamic, with indicators continuing to forecast an acceleration of global activity. This growth is characterised not only by its robustness but also by a greater degree of uniformity between countries than seen in previous quarters.

Raw material prices have undergone a strong upward surge since June, which has offset the decline accumulated over the first half of the year. By way of illustration, the price of nickel, a benchmark in our industry, closed the year at USD 12,305 per tonne; a 21.9% gain on its price at the end of 2016. In terms of average prices, the average LME nickel price was USD 10,459 per tonne; 8.4% higher than the average price in 2016.

The other two alloying elements with a significant weight in the Group's procurements for the manufacture of stainless steel are molybdenum and chromium, both of which also rose in price in the second half of the year. The molybdenum price and chromium price at 2017 year-end were 40.6% and 26.4% higher than at 2016 year-end, respectively.

The price of oil, following poor performance in the first half of the year, has also seen a major upturn since June. Brent Crude closed the year at USD 66.87; 17.7% higher than at 2016 year-end.

Despite this upturn in the price of raw materials, the market in which TUBACEX sells the majority of its products and services has remained very depressed for the third consecutive year. Final demand was very low in practically all products and regions. However, despite facing an extremely weak market, TUBACEX's strong positioning and increased market share in higher value-added products have allowed it to win significant projects, partially offsetting the poor market situation. The Group currently has a record premium product portfolio worth EUR 700 million, which affords it unprecedented visibility.

Entering 2018, the stabilisation of the price of oil at more normal levels, the increase in the price of raw materials and the reactivation of projects that had been halted in recent years signal the start of the Group's recovery. While it should be noted that this recovery will take time to translate into increased demand for TUBACEX products, the record backlog indicates a substantial increase in profit in 2018, starting in the first quarter.

1. GROUP BUSINESS PERFORMANCE IN 2017

To provide a detailed analysis of the performance of the main business variables in 2017, the changes in the main headings in the consolidated statement of profit or loss are examined below, together with the most significant events relating to the Group's financial, commercial and industrial activity.

1.1 Analysis of the Group's consolidated statement of profit or loss.
1.2 Financial activity.
1.3 Risk management policy.
1.4 Commercial activity.
1.5 Industrial activity.
1.6 Strategic Plan.
1.7 Competitiveness plan.

1.1 Analysis of the Group's statement of profit or loss

For comparison purposes, the main headings of the consolidated statements of profit or loss for 2017, 2016 and 2015 (in millions of euros) are discussed below.

	2017	%	2016	%	2015	%
Revenue	490.36	100.00	494.03	100.00	533.42	100.00
Other income	10.72	2.19	17.92	3.63	8.75	1.64
Changes in inventories	20.38	4.16	9.26	1.87	-16.01	-3.00
Total operating amount	**521.46**	**106.34**	**521.21**	**105.50**	**526.16**	**98.64**
Procurements and purchases	-274.72	-56.02	-268.03	-54.25	-280.46	-52.58
Staff costs	-121.44	-24.77	-121.54	-24.60	-124.14	-23.27
External and operating expenses	-99.36	-20.26	-96.69	-19.57	-88.55	-16.60
Gains on bargain purchases arising from business combinations	0.0	0.00	0.0	0.00	15.93	2.99
Gross profit from operations	**25.94**	**5.29**	**34.95**	**7.07**	**48.94**	**9.17**
Depreciation and amortisation charge and impairment losses	-54.19	-11.07	-32.43	-6.56	-33.37	-6.26
Net profit from operations	**-28.25**	**-5.78**	**2.52**	**0.51**	**15.56**	**2.92**
Financial loss	**-9.04**	**-1.84**	**-7.68**	**-1.56**	**-13.20**	**-2.47**
Exchange differences	**-1.79**	**-0.36**	**-0.39**	**-0.08**	**-0.53**	**-0.10**
Profit (Loss) from ordinary activities	**-39.08**	**-7.99**	**-5.55**	**1.12**	**1.84**	**0.34**
Income tax	14.97	3.05	3.99	0.81	5.43	1.02
Net profit (loss) for the year	**-24.10**	**-4.94**	**-1.56**	**-0.32**	**7.27**	**1.36**
Profit (loss) attributable to non-controlling interests	4.40	0.90	2.07	0.42	1.15	0.22
Profit (loss) attributable to the Parent	**-19.71**	**-4.04**	**0.51**	**0.10**	**8.41**	**1.58**

In terms of trends, following is an analysis of the most noteworthy of the changes in the consolidated statement of profit or loss:

- Sales fell by 0.7% in 2017 compared with the 2016 figure. This was due to the decrease in volumes billed and the price pressure caused by this decrease.

- The ratio of the cost of procurements to net sales increased from 54.3% at 2016 year-end to 56.0% due to an increase in premium products as a proportion of total Group sales, together with the effect of reductions in volumes and prices, mainly of standard products.

- The Group's headcount rose from an average of 2,217 in 2016 to 2,314 in 2017, a net increase of 97 people. However, the Group's efforts to adapt its cost structure to the current market situation ensured that staff costs in 2017 remained practically in line with 2016 levels.

- "Other Operating Expenses" made up 20.3% of revenue in 2017, compared to 19.6% in 2016.

- Depreciation and amortisation charges and impairment losses increased significantly in 2017, as a fundamental consequence of the recognition of an extraordinary accounting adjustment related to the change in business model to be implemented at the Austria subsidiary. This adjustment, while affecting the Group's net results, has no effect on cash flow.

- In 2017 the Group increased its borrowings by EUR 46.6 million to EUR 253.5 million, while its financial loss increased to a lesser extent, from EUR 7.68 million in 2016 to EUR 9.04 million.

- The income tax situation is positive, as tax credits, tax assets, deferred tax assets and other adjustments were recognised at year-end.

1.2 Financial activity

The equity attributable to the Parent stood at EUR 257.2 million at the end of 2017, representing 28.4% of total equity and liabilities (2016: 33.7%). It is important to note that the Group's strategy, geared toward reducing borrowing costs and guaranteeing a solid cash position, has borne fruit, and that it currently enjoys a healthy financial position which enables it to ensure the coverage of its debt maturities for the next three to four years.

The Group's long-term financial debt at 31 December 2017 amounted to EUR 79.7 million, which represents 19.5% of the total debt, compared with 46.5% in 2016. The reduction of the percentage represented by long-term debt is due mainly to the reclassification of the loan with the European Investment Bank. The TUBACEX Group obtained a loan from the EIB in 2015, amounting to EUR 65 million and maturing in ten years. This loan agreement involves a series of clauses that have not been fulfilled at 2017 year-end, so, in accordance with generally accepted accounting principles, the debt has been reclassified to current liabilities in the consolidated statement of financial position. However, these clauses will be fulfilled once more in 2018 as soon as the net financial debt position is reduced through the normalisation of working capital (which rose at year-end due to manufacturing related to significant unbilled orders) and the expected cash from projects in progress is generated. Furthermore, at the date of formal preparation of these consolidated financial statements, the Group has received a waiver from the EIB which evidences the non-claimability of this loan.

In 2017 TUBACEX's share price performed very well; it increased by 22.7% due to the positive outlook of the industry and in line with the improvement in raw material prices, especially in the price of oil and the price of nickel, which rose by 17.7% and 21.9%, respectively. TUBACEX's share price ended 2017 at EUR 3.35 per share, which represents a market capitalisation of EUR 445.5 million, compared to EUR 363.0 million at 2016 year end.

The share price peaked in May at EUR 3.80 per share, whereas the lowest price was in January, at EUR 2.75 per share.

In 2017 103.0 million shares were traded, with effective trading amounting to EUR 328.7 million. There was a 38.6% increase in shares traded with respect to 2016, which represented a 77% turnover of all the Company's shares.

Since June 2015 TUBACEX's shares have been included in the "IBEX SMALL CAP" index, comprising the 30 securities with the highest adjusted free-float capitalisation other than the 35 securities in the "IBEX 35" index and the 20 securities in the "IBEX MEDIUM CAP" index.

1.3 Risk management policy

In 2017 the Group continued and extended to its various subsidiaries its efforts to establish and monitor active risk management policies which, since they are designed to mitigate the Company's exposure to the main risks associated with its activity, continued to be of major relevance in the current complex macroeconomic climate.

In 2016 the Audit and Compliance Committee updated the corporate risk map, and in 2017 it drew up specific risk maps for projects with a significant economic impact for the Group. With regard to the risks inherent to TUBACEX's activities, the control duties of the Group's governing bodies, which include the Board of Directors, the Audit and Compliance Committee, Corporate Financial Management and the financial and administrative departments of each business unit, as well as the Internal Audit Function and Compliance Unit, are focused on the key risks detailed below. It should be noted that the Board of Directors of TUBACEX, S.A. approved its corporate tax, control and risk management policies in 2016.

The main specific measures used by the Group to control its exposure to the risks associated with its activity are as follows:

- Credit risk.
  This is one of the most significant risks for the Company because it affects all revenue. The general policy is to cover as many transactions as possible through credit insurance and to this end the Group has entered into the corresponding annual agreements included under this arrangement. Transactions that are not covered by the aforementioned agreements are covered by sufficient letters of credit or collateral guarantees. The Group's general policy is to maintain certain minimum credit risk exposure levels. This policy has given rise to historic, exceptionally low non-payment percentages.

- Foreign currency risk.
  The Group is exposed to foreign currency fluctuations. Two effects arising from transactions involving product sales and raw material purchases can be identified. On the one hand, there is a risk in the change in the margin generated by sales from the time of the sale to its collection and a risk in the value of purchases made in US dollars and Indian rupees, mainly purchases of raw materials. On the other, there is a risk in the consolidation of the results of subsidiaries outside the eurozone (due to the use of the year-end exchange rate method) whose financial statements are denominated in US dollars. The greatest risk exposure relates to US dollars although there is also exposure to pounds sterling and Indian rupees. The Group's general policy is not to speculate with open positions; considering balance sheet positions and the risk assumed in the backlog, currency forwards are arranged, always under conservative policies, to mitigate the Group's exposure.

- Interest rate risk.
  The majority of the loans and credit facilities arranged by the Group are indexed to Euribor and to a lesser extent to US Libor in various arrangement and settlement periods, exposing the Group's borrowing costs to potential interest rate changes. The Group arranges fixed-rate interest rate hedges with a view to mitigating the aforementioned exposure, mainly in its long-term operations.

- Risk of volatility in raw material prices.
  The Group is exposed to changes in the price of the main raw materials used to manufacture stainless steel such as nickel, chromium, molybdenum and stainless steel scrap, the price of which is mainly indexed to the cost of nickel. The most significant effect arises from the price of nickel, which is quoted daily on the London Metal Exchange (LME) and from its impact on the cost of scrap metal, and also from chromium and molybdenum. The Group's general policy consists of hedging raw material prices relating to steel and tube orders listed at fixed prices in order to protect them from potential fluctuations prior to their collection.

- Liquidity risk.
  The Group manages liquidity risk prudently by arranging loans with long maturity periods and favourable financial conditions, credit lines with more extensive limits, a portion of which are not drawn down, allowing for the availability of credit in the short term, factoring facilities which help bring forward collections from customers, reverse factoring arrangements which facilitate the management of payments to suppliers, and spreading sources of financing, diversifying among several banks, the public authority that grants loans from the Spanish Centre for Industrial Technological Development (CDTI), the European Investment Bank, and the Alternative Fixed Income Market (MARF) (see Notes 18 and 19). The Group also has a good cash position that enables it to have a good liquidity position.

Also worthy of mention is that the information that must be disclosed in the directors' report under Law 31/2014, of 3 December, amending the Consolidated Spanish Limited Liability Companies Law to improve corporate governance, is that the Group's average payment period is 59 days. This payment period relates to payments to suppliers by the Parent and the other Spanish subsidiaries. This period exceeds the maximum payment period set by Law 11/2013, of 26 July, although this is for administrative reasons that will foreseeably be corrected in the short term.

1.4 Sales activity

The Group's consolidated sales amounted to EUR 490.36 million in 2017, down 0.7% on 2016. The main reasons for this performance are explained in point 1.1. above.

The Group's sales by geographical area over the last three years were as follows (in millions of euros):

	2017	2016	2015	2017/2016
Europe	283.30	278.98	321.28	1.5%
US	39.95	32.99	71.36	21.1%
Other countries	167.11	182.06	140.78	-8.2%
Total sales	490.36	494.03	533.42	-0.7%

According to these figures, by market, 58% of sales are made in the European market, 8% in the US and 34% in the rest of the world. In 2016 this distribution was 56%, 7% and 37%, respectively.

Geographically, over half of revenue is generated in Europe. It should be taken into account that in the sales made by the Group to new facilities in the oil, gas and energy industries, the Group client engineering the project or manufacturing the equipment is frequently European even though the final destination of the product may be a different geographical area.

1.5 Manufacturing activity

The investments made in property, plant and equipment in 2017 amounted to approximately EUR 34.9 million, as a whole, compared with the investment of EUR 34.0 million made in 2016.

The most important investments made in 2017 were the Group's positioning strategy in the higher value-added products which are necessary to ensure the quality required in this type of product and to improve the efficiency of these product lines.

In this connection, special mention should be made of the purchase of laminating machines (six Pilger laminators) for Salem, SBER and Tubacex Prakash. This investment is in line with the strategy of increasing standard product production capacity in India, increasing premium product capacity in Austria and strengthening the Group's position in the US.

Also, the investments to improve the efficiency at the Group's key industrial plants continued with the renewal and maintenance of equipment, firmly established procedures for preventive maintenance at facilities and strict compliance with environmental and industrial safety legislation.

1.6 *Strategic plan*

In July 2016 the TUBACEX Group presented its 2016-2020 Strategic Plan, aimed at positioning the Company as a global tubular solutions provider, reducing volatility by diversifying risks, increasing the value of the Company in a normalised market situation and achieving management excellence. This strategy ensures that the customer not only remains the centre of the Group's activities, but that the customer's position is strengthened through the commitment to running a company that is fully focused on satisfying the customer's needs.

The main advances in each of the pillars of the strategy are as follows:

- Business strategy: Advance in the value chain with Premium products, reduce market volatility and commit to product and market diversification, through investment in a wider range of products and services.

- Operational strategy: Maintain progress in the three main pillars of the Tubecex Production System, which is the Group's own operational excellence system (ongoing improvement, radical improvement, transformation of upkeep).

- Innovation strategy: Customer-oriented business vision which offers value through the proposal of solutions in relation to cost optimisation and CAPEX reduction.

- Management strategy: Continually implement advanced management tools, create a lean culture, with properly qualified and motivated teams and the roll-out of ongoing improvement tools.

1.7 *Competitiveness plan*

In mid-2014 and coinciding with the sharp drop in oil prices, the TUBACEX Group initiated an ambitious plan in all its production units with a view to improving operating margins and obtaining a competitive edge in productivity and costs. This competitiveness plan was strengthened and complemented throughout 2017 by a rigorous cost control plan at all levels of the organisation including, inter alia, outsourcing, personnel structure (especially temporary staff), outside services, cleaning, travel expenses, maintenance costs and other general expenses.

2. SITUATION OF THE GROUP

In recent years, and particularly since the publication of the 2013-2017 strategic plan, TUBACEX has increased its positioning in the oil and gas and electricity generation industry by committing itself to the development of premium, high value-added products.

Since 2014 we have witnessed a sharp fall in the price of oil, which has caused the greatest crisis in the history of this industry, with three consecutive years of drops in the CapEx of oil and gas companies.

In this macroeconomic context, the demand for TUBACEX products fell significantly, adversely affecting the dilution of fixed costs and increasing the pressure on prices in all industries. However, there are internal positive factors which are worthy of mention. The cost reduction plan, the reinforcement of the sales structure, the increase in productivity and efficiency, the acquisition of three companies and the improved position in the premium sector allowed the Group to partially offset the current adverse economic environment.

In 2018 we anticipate a better situation from the Group's perspective, given the current historic portfolio of high value-added products. Furthermore, the first signs of recovery are starting to appear in the industry, such as the increase in the price of raw materials and the stabilisation of the price of oil, which signal a progressive improvement in the general market situation.

3. SIGNIFICANT EVENTS FOR THE GROUP AFTER THE REPORTING PERIOD

After 2017 year-end no significant events took place.

4. OUTLOOK AND FUTURE PERFORMANCE OF THE GROUP'S BUSINESS LINES

The International Monetary Fund confirmed in its latest World Economic Outlook update that economic activity is gaining momentum at global level. Global growth, which in 2016 posted the lowest rate since the global financial crisis (3.2%), will rise to 3.6% in 2017 and to 3.7% in 2018. According to the projections, growth will surge this year and next year in emerging markets and developing economies. The recovery is not absolute, however. The outlook for the advanced economies has improved, especially in the eurozone, but in many countries inflation is still weak, which reveals idle capacity still to be eliminated, and the GDP growth outlook is dampened by the weak growth in productivity.

Looking forward to 2018, there are signs of recovery in the industry in which TUBACEX sells its products and services (higher price of raw materials, stabilisation of the price of oil, increases in CapEx posted in the industry, etc.). However, changes in the market situation are still not expected in the short term as the effect of the increase in CapEx posted by oil and gas companies will take time to translate into an increase in demand for the Group's products. Despite this, TUBACEX's record backlog enables the Group to anticipate a substantial improvement in results in 2018, which will take effect from the first quarter.

5. INNOVATION ACTIVITIES

In accordance with its strategic vision, the TUBACEX Group is making advances in its value proposition, offering integral solutions of great technological value and a wide range of value added services tailored to its customers (surface finishing processes, advanced superficial treatments, logistics services, prefabrication, etc.) with the ultimate aim of improving the global efficiency of both projects and customer processes, thus reducing total cost for the customer.

All this is possible thanks to innovation management in accordance with the principles of open innovation; this enables the integration of the capacities and knowledge of a network of companies, including customers, suppliers, research centres and business associates in general.

In recent years the TUBACEX Group has made a commitment to develop R&D+I capabilities and new products and processes for highly demanding applications. Its investments capitalise on the growing increase in resources in one of TUBACEX's key areas, with a gradual year-on-year increase.

6. ENVIRONMENTAL ACTIVITIES

The improvement in environmental results continues to be a priority strategy for TUBACEX. To this end, it systematically implements, in all the Group's business units and in all operational situations, including emergencies, actions designed to minimise the environmental impact associated with its activity (waste, atmosphere, water, noise, energy, land, etc.). At the same time, also in relation to environmental impact, environmental surveillance and monitoring programmes are managed in accordance with current legislation and other specifications laid down by the competent authorities. In this regard, planned environmental expenses amounting to EUR 1.4 million were incurred in 2017.

The subsidiaries Tubacex Tubos Inoxidables (2001), Acería de Álava (2002), Schoeller-Bleckmann Edelstahlrohr (2006), Salem Tube (2008), IBF (2012) and Tubacex Prakash (2017) have in place an environmental management system under standard ISO 14001 certified by an accredited standardisation and certification body. Accordingly, the entire production process of the TUBACEX Group's plants in Llodio, Amurrio, Ternitz (Austria), Greenville (US), Milan (Italy) and Umbergaon (India) from the receipt of raw materials and preparation of the stainless steel to the dispatch of the manufactured tubes, has been approved with regard to environmental management by an accredited body.

The main lines of action in 2017 were as follows:

- TTI and ACERALAVA continued their participation in the review of the Ferrous Material Process BREF with a view to establishing the future BATs of that BREF.
- The environmental surveillance programmes implemented by the plants arising from requirements defined in the integrated environmental authorisations are being conducted without incident and presented in due time and form to the authorities.
- Noteworthy environmental improvements undertaken are as follows:

  1. Reduction of energy consumption, as a result of the programme of replacing lighting with LED lights at the three plants.
  2. Reduction of noise pollution as a result of the soundproofing of one of the TTI Llodio cooling towers.
  3. Continuous identification and implementation of more sustainable alternatives (in environmental and economic terms) for waste management. The increase in recovered waste is a priority environmental objective in which specific milestones are achieved each year.

7. ACQUISITION AND DISPOSAL OF TREASURY SHARES

The number of treasury shares did not change in 2017 and amounted to 3,142,975 shares, representing 2.36% of the share capital.

8. PROPOSED ALLOCATION OF LOSS

The proposed allocation of the loss of Tubacex, S.A. that the Board of Directors will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
To reserves	-28,832
Total	-28,832

9. INFORMATION ON FINANCIAL INSTRUMENTS

Note 12 to the consolidated financial statements provides detailed information on the foreign currency and commodity purchase and sale forward contracts, as well as interest rate swaps, held by the TUBACEX Group at 31 December 2017.

10. OTHER INFORMATION

10.1 Fees paid to auditors

The audit fees for the professional services rendered at the TUBACEX Group (at Spanish companies) in 2017 amounted to EUR 217.3 thousand.

11. ANNUAL CORPORATE GOVERNANCE REPORT

The full text of the 2017 Annual Corporate Governance Report is set out below. This text was approved by the Board of Directors of Tubacex, S.A. and is an integral part of the 2017 consolidated directors' report.

12. NON-FINANCIAL INFORMATION STATEMENT

The full text of the non-financial information statement is also set out below. This text was approved by the Board of Directors of Tubacex, S.A. and is an integral part of the 2017 consolidated directors' report.

ANNEX 3
FINAL TERMS

[DENOMINATION OF THE ISSUE]

[TOTAL VOLUME OF THE ISSUE]

Issued under the Information Memorandum ("*Documento Base Informativo de Incorporación*") registered with MARF on [●].

These Final Terms (the "**Final Terms**") are complemented with the Documento Base Informativo de Incorporación registered with the Alternative Fixed-Income Market ("**MARF**") on [●] and available on the webpage of MARF (www.bmerf.es), and should be read in any case jointly with such document.

The securities described in these Final Terms are issued by Tubacex, S.A. with registered office at calle Tres Cruces, 8, Llodio (Álava) (the "**Issuer**").

The Notes issued under these Final Terms are within the maximum nominal amount of the Programme (EUR XXXXXX).

Mr. [●], in the name and on behalf of the Issuer, acting as [●], is responsible for the entire contents of this Final Terms.

1. DESCRIPTION, CLASS AND CHARACTERISTICS OF THE NOTES ISSUED

A. MAIN CHARACTERISTICS

1. Nature and denomination of the Notes:

   - Denomination of the issue: [●]

   - ISIN code: [●]

   - [If the issue is fungible with another previous issue, state so here]

2. Currency of the issue: Euro (€) / US Dollars (USD)

3. Nominal and effective amount of the issue:

- Number of Notes: [●]
- Nominal Amount: [●]
- Effective Amount: [●]

4. Nominal and effective amount of the Notes:

   - Unitary nominal amount: 100,000
   - Unitary Effective amount: [●]
   - Issue Price: [●]%

5. Issue Date: [●]

6. Disbursement Date: [●]

7. Interest rate: [Fixed / Variable]

8. Maturity Date: [●]

9. Options of early amortization:

   - For the Issuer: [yes / no]
   - For the investor: [yes / no]

10. Admission to listing of the securities: [MARF / other markets to be stated here]

11. Representation of the securities: [account entries managed by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR), located at Plaza de la Lealtad nº 1, Madrid/ Others]

B. INTEREST RATE AND AMORTIZATION

12. Fixed / Variable interest rate: [●]% / EURIBOR/LIBOR + [●]%

    - [Floor / Cap] if applicable

- Date of commencement of accrual of interest: [•]

- Interest payment dates: [•]

- Irregular period / amount: [•]

- Base Calculation: [•]

- Day Count Fraction: [Actual/Actual ICMA basis unadjusted standard / Actual/360 ICMA]

- Additional Information if EURIBOR/LIBOR is not available: [•]

- Interest Determination Date: [•] (*only in case of Variable Interest Rate*)

- Relevant Financial Centre: [•] (*only in case of Variable Interest Rate*)

13. Amortization of the notes:

- Maturity Date: [•]

- Amortization Price: [•]

- [Bullet/Amortizing]

- Early amortization by the Issuer: [Yes]

C. OPERATIONAL INFORMATION

14. Placement Entity / Entities: [•]

15. Paying Agent: [•]

16. Relevant Calendar: [•]

D. ADDITIONAL INFORMATION

17. Representation of the noteholders: [•]

18. Placement Method: [•]

2. ISSUE AGREEMENTS OF THE SECURITIES AND ON THE CONSTITUTION OF THE SYNDICATE OF NOTEHOLDERS

Pursuant to the Documento Base Informativo de Incorporación under which this issue of notes is made and according to the rules and Regulations established therein in relation to the constitution of the Syndicate of Noteholders, for this issue of notes a Syndicate of Noteholders has been constituted, called "[•]".

[•] and through the signing of these Final Terms, accepts his appointment as Commissioner of the Syndicate of Noteholders, having the powers attributed to him in the Regulations included in the Documento Base Informativo de Incorporación.

3. AGREEMENTS ON ISSUANCES AND ADMISSION TO TRADING

The admission to trading will be requested of the notes described in these "Final Terms" on [MARF / other markets to be stated here] and their listing is ensured within a period of less than 30 days as form the date of disbursement and within the validity period of the Programme.

These Final Terms include the information necessary for the admission to listing of the securities on the market[s] mentioned above.

Settlement will take place through Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U., (IBERCLEAR)/ other depositaries to be stated here.

Signing on behalf of the Issuer; Mr. [NAME AND SURNAMES], acting as [POSITION], by virtue of the [TYPE OF EMPOWERMENT AND DATE THIS WAS GRANTED] and in the name and on behalf of the Issuer, with address at [•].

ISSUER
Tubacex, S.A.
Calle Tres Cruces, 8
Llodio – Álava

PAYING AGENT
Banca March, S.A.
Avenida Alejandro Rosselló, 8
07002 Palma de Mallorca

ARRANGERS AND PLACEMENT ENTITIES
Banca March, S.A.
Avenida Alejandro Rosselló, 8
07002 Palma de Mallorca

Norbolsa Sociedad de Valores, S.A.
Plaza Euskadi nº 5 (Torre Iberdrola, Planta 26),
48009 Bilbao (Bizkaia)

Ahorro Corporación Financiera Sociedad de Valores y Bolsa, S.A.
Calle Eucalipto, nº 5, 1º
28016 Madrid

Banco de Sabadell, S.A.
Avenida Oscar Espla, nº 37,
03007 Alicante

REGISTERED ADVISOR
Banca March, S.A.
Avenida Alejandro Rosselló, 8
07002 Palma de Mallorca

LEGAL ADVISOR OF THE ISSUER
Cuatrecasas Gonçalves Pereira, S.L.P.
Almagro 9,
28010 Madrid

COMMISSIONER
BONDHOLDERS, S.L.
Avenida Francia, 17,A,1
46023 Valencia
www.bondholders.com