

Bolsa de Bilbao



TUBACEX

Divisa	Comprador
USD	143,123
XEU	164,419
DEM	84,215
FRF	25,010
GBP	234,822
100 ITL	8,551
100 BEF	408,019
NLG	74,894
DKK	22,114
IEP	217,890
100 PTE	83,521

TUBACEX, S.A. AND SUBSIDIARY COMPANIES
Consolidated Annual Accounts
31 december 2005
Prepared in accordance with EU-Endorsed International
Financial Reporting Standards
(Translation from the original in Spanish)



KPMG Auditores S.L.

Gran Vía, 17
48001 Bilbao

Auditors' Report on the Consolidated Annual Accounts

(Translation from the original in Spanish)

To the shareholders of
Tubacex, S.A.

1. We have audited the consolidated annual accounts of Tubacex, S.A. (the Company) and subsidiary companies (hereinafter the Group or the Tubacex Group), which comprise the consolidated balance sheet at 31 December 2005, the consolidated statements of income, cash flow and changes in equity for the year then ended and the notes thereto, the preparation of which is the responsibility of the Company's board of directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the consolidated annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed. Our work did not include an audit of the 2005 and 2004 annual accounts of certain companies, shown in Appendix I, in which the Tubacex Group holds an interest, and which contribute 31% of assets and 53% of net profit to the corresponding consolidated figures. The aforementioned annual accounts have been audited by other auditors and, therefore, our opinion on the consolidated annual accounts of Tubacex, S.A. and subsidiary companies is based, insofar as it relates to these companies outlined in the aforementioned Appendix I, solely on the reports of those auditors.
2. The accompanying consolidated annual accounts for 2005 are the Tubacex Group's first annual accounts prepared in accordance with European Union-endorsed International Financial Reporting Standards (hereinafter EU-IFRS), which require that comparative figures be included for the previous year. In this regard, and in accordance with prevailing legislation, these consolidated annual accounts for 2005 also include, for each individual caption in the consolidated balance sheet, the consolidated statements of income, cash flow and changes in equity for the year then ended and the notes thereto, comparative figures for 2004, which result from the application of EU-IFRS in force at 31 December 2005. Consequently, the figures for 2004 differ from those reported in the approved 2004 consolidated annual accounts prepared in accordance with accounting principles prevailing that year. The differences generated as a result of applying EU-IFRS to consolidated equity at 1 January and 31 December 2004 and to consolidated results for 2004 are detailed in note 2.4.2. We express our opinion solely on the consolidated annual accounts for 2005. On 18 March 2005 we issued our unqualified audit report on the consolidated annual accounts for 2004, which were prepared in accordance with accounting principles prevailing that year.
3. As described in note 2.4.3, the Tubacex Group has opted to apply the exemption provided for in IFRS 1, which permits application of International Accounting Standards 32 and 39 on the accounting treatment of financial instruments as of 1 January 2005 without the need to provide comparative figures for the prior year. This should be taken into consideration when comparing the 2005 and 2004 consolidated annual accounts.
4. In our opinion, based on our audit and the reports of the other auditors, mentioned in Appendix I to the notes to the consolidated annual accounts, these consolidated annual accounts present fairly, in all material respects, the consolidated shareholders' equity and consolidated financial position of Tubacex, S.A. and subsidiary companies at 31 December 2005 and the consolidated results of their operations, consolidated cash flows and changes in consolidated equity for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with EU-IFRS which, except for the matter described in paragraph 3 above, have been applied on a basis consistent with that used in the preparation of the figures and information for the preceding year, which have been included in the 2005 consolidated annual accounts for comparison purposes only.
5. The accompanying consolidated directors' report for 2005 contains such explanations as the directors consider relevant to the situation of the Tubacex Group, the evolution of its business and other matters, but is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2005. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Tubacex, S.A. and subsidiary companies.

KPMG AUDITORES, S.L.

Julio Mir Roma

20 March 2006



KPMG Auditores S.L. es miembro de
KPMG International, Sociedad Suiza

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N.I.F. B-78510153

TUBACEX, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS 31 DECEMBER 2005 AND 2004
 (Expressed in thousands of Euros)(Translation from the original in Spanish)

ASSETS	Note	2005	2004
Property, plant and equipment	5	92,976	90,341
Intangible assets	6	23,857	23,978
Investment property	7	3,813	3,984
Investments accounted for using the equity method		998	923
Financial assets	8	8,589	8,948
Deferred tax assets	13	23,647	26,506
Other non-current assets		26	94
		153,906	154,774
Parent company shares		-	2,519
Total non-current assets		153,906	157,293
Inventories	10	159,721	121,296
Trade and other receivables	11	122,001	98,682
Cash and cash equivalents	12	21,302	11,604
Total current assets		303,024	231,582
Total assets		456,930	388,875

The accompanying notes form an integral part of the 2005 consolidated annual accounts.

EQUITY	Note	2005	2004
Share capital		59,840	59,840
Share premium		17,108	17,108
Other reserves		61,817	61,430
Own shares		(2,519)	-
Recognised income and expenses		2,501	(932)
Retained earnings		67,275	49,371
Total equity	14	206,022	186,817
LIABILITIES			
Interest-bearing loans and borrowings	16	12,295	15,358
Employee benefits	18	13,867	9,469
Government grants		181	705
Provisions	19	13,945	13,608
Deferred tax liabilities	13	1,140	1,019
Other non-current liabilities		2,791	2,764
Total non-current liabilities		44,219	42,923
Interest-bearing loans and borrowings	16	135,038	100,269
Trade and other payables	17	67,634	56,358
Income tax payable	23	4,017	2,508
Total current liabilities		206,689	159,135
Total equity and liabilities		456,930	388,875

INCOME STATEMENTS

TUBACEX, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

(Expressed in thousands of Euros)(Translation from the original in Spanish)

	Note	2005	2004
Revenue		430,497	347,452
Other income	21	3,979	1,540
Increase in stocks of finished products and work in progress		28,895	17,725
Self-constructed non-current assets		151	88
Raw materials and consumables		(264,599)	(198,740)
Personnel expenses	22	(82,555)	(70,731)
Amortisation, depreciation and impairment losses	5, 6 and 7	(15,645)	(15,082)
Other expenses		(63,719)	(57,188)
		37,004	25,064
Financial income		6,614	3,712
Financial expenses		(10,437)	(9,014)
Share of profit in companies accounted for using the equity method		75	224
		33,256	19,986
Income tax expense	23	(7,832)	(4,603)
		25,424	15,383
Basic earnings per share (expressed in Euros)	15	0.194	0.117

The accompanying notes form an integral part of the 2005 consolidated annual accounts.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TUBACEX GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS (INDIRECT METHOD)

FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004 (Expressed in thousands of Euros) (Translation from the original in Spanish)

	2005	2004
Cash flows from operating activities		
Profit before income tax	33,256	19,986
Adjusted for:		
Amortisation and depreciation	15,645	15,082
Reversal of the provision for own shares	-	(233)
Change in provision	5,854	2,415
Financial income	(6,614)	(3,712)
Financial expenses	10,437	9,014
Share in profit of companies accounted for using the equity method	(75)	(224)
Proceeds/(losses) from the sale of property, plant and equipment	-	323
Deferred government grants	(524)	(148)
	57,979	42,503
Changes in working capital		
Increase in trade receivables	(23,319)	(23,692)
Increase in inventories	(38,425)	(27,386)
Increase in trade and other payables	11,276	18,028
Decrease in provisions	(624)	(105)
Decrease in employee benefits	(495)	(379)
Other items	3,433	(932)
	9,825	8,037
Cash from operations		
Interest paid	(10,437)	(9,014)
Income tax paid	(3,343)	(2,709)
	(3,955)	(3,686)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	521	493
Proceeds from sale of intangible assets	-	29
Proceeds from sale of financial assets	451	509
Interest received	6,614	3,702
Acquisition of property, plant and equipment	(15,857)	(14,234)
Acquisition of intangible assets	(1,469)	(1,211)
Acquisition of other financial assets	(92)	(107)
Other	(1,115)	768
	(10,947)	(10,051)
Cash flows from financing activities		
Proceeds from other non-current liabilities	27	375
Proceeds from interest-bearing loans and borrowings	31,706	19,885
Repayment of interest-bearing borrowings	-	(6,009)
Dividends paid	(6,756)	(2,420)
Other	(377)	32
	24,600	11,863
Net increase (decrease) in cash and cash equivalents	9,698	(1,874)
Cash and cash equivalents at 1 January	11,604	13,478
	21,302	11,604

The accompanying notes form an integral part of the 2005 consolidated annual accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

TUBACEX, S.A. AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004 (Expressed in thousands of Euros)(Translation from the original in Spanish)

	Share Capital	Share Premium	Own share reserve	Others reserves	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2004	59,840	17,108	-	58,191	-	39,615	174,754
Effect of foreign currency translation differences	-	-	-	-	(932)	-	(932)
Profit for the year	-	-	-	-	-	15,383	15,383
Total income and expense recognised during the year	-	-	-	-	(932)	15,383	14,451
Appropriation of retained earnings	-	-	-	(2,512)	-	2,512	-
Dividends paid	-	-	-	(2,420)	-	-	(2,420)
Transfers	-	-	-	8,171	-	(8,139)	32
Balance at 31 December 2004	59,840	17,108	-	61,430	(932)	49,371	186,817

TUBACEX, S.A. AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005 (Expressed in thousands of Euros)(Translation from the original in Spanish)

	Share Capital	Share Premium	Own share reserve	Others reserves	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2005	59,840	17,108	-	61,430	(932)	49,371	186,817
Adoption of IAS 32 and 39	-	-	(2,519)	-	-	-	(2,519)
Restated balance at 1 January 2005	59,840	17,108	(2,519)	61,430	(932)	49,371	184,298
Effect of foreign currency translation differences	-	-	-	-	3,433	-	3,433
Profit for the year	-	-	-	-	-	25,424	25,424
Total income and expense recognised during the year	-	-	-	-	3,433	25,424	28,857
Appropriation of retained earnings	-	-	-	7,143	-	(7,143)	-
Dividends paid	-	-	-	(6,756)	-	-	(6,756)
Other movements	-	-	-	-	-	(377)	(377)
Balance at 31 December 2005	59,840	17,108	(2,519)	61,817	2,501	67,275	206,022

The accompanying notes form an integral part of the 2005 consolidated annual accounts.

TUBACEX, S.A. AND SUBSIDIARY COMPANIES CONSOLIDATED ANNUAL ACCOUNTS 31 DECEMBER 2005

(1) NATURE, PRINCIPAL ACTIVITIES AND THE GROUP

Tubacex, S.A. (hereinafter the Company) was incorporated with limited liability under Spanish law on 6 June 1963. The registered offices of the Company are located in Llodio (Alava, Spain).

The statutory activity of the Company consists, inter alia, of the production and sale of special seamless steel pipes, mainly of the stainless steel variety, as well as any other activity related to the iron and steel industry or other similar activities. Nevertheless, as of 1 January 1994 the Company was converted into a holding company and head of the Tubacex Group, with no production activity, as this is carried out by its subsidiary companies.

The principal activity of Tubacex, S.A. consists of the holding of shares and the rendering of certain centralised and leasing services to group companies, which are subsequently invoiced.

Tubacex, S.A. is parent of a group of companies comprising the subsidiaries detailed in Appendix I, which forms an integral part of this note. The principal activity of Tubacex, S.A. and subsidiary companies (hereinafter the Group) comprises the production and sale of special seamless steel pipes, mainly of the stainless steel variety.

The shares of Tubacex, S.A. are listed on the Spanish organised stock market.

(2) BASIS OF PRESENTATION

2.1 Basis of preparation of the consolidated annual accounts and comparison of information

The accompanying consolidated annual accounts are presented in thousands of Euros and have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Tubacex, S.A. and subsidiaries at 31 December 2005, as well as the consolidated results of its operations, changes in consolidated equity and consolidated cash flows for the year then ended.

The 2005 consolidated annual accounts are the first to be prepared by the Group under EU-IFRS and, consequently, IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied. The consolidated annual accounts for 2005 include, for each caption of the consolidated balance sheet and consolidated statements of income, cash flow and changes in net equity and the notes thereto, comparative data for 2004, which was obtained through consistent application of EU-IFRS. Consequently, the 2004 figures differ from those contained in the 2004 consolidated annual accounts approved by the shareholders at their annual general meeting on 25 May 2005, which were prepared in accordance with generally accepted accounting principles prevailing that year, the Spanish General Chart of Accounts and Royal Decree 1815/1991 governing the preparation of consolidated annual accounts (hereinafter, generally accepted accounting principles in Spain or Spanish GAAP). The effect of applying EU-IFRS to consolidated equity at 1 January and 31 December 2004 and the Group's consolidated results for the year then ended is detailed in note 2.4.2.

There are no significant compulsory principles which have not been applied.

Comparison of information

The accounting policies employed by the Group in the preparation of its 2005 consolidated annual accounts are consistent with those applied in the prior year, with the exception of those detailed in note 2.4.2. As permitted by IFRS 1, as from 1 January 2005 the directors have opted to apply the presentation, recognition, measurement and disclosure requirements of IAS 32 "Financial Instruments: Presentation and Disclosure" and IAS 39 "Financial Instruments: Recognition and Measurement".

These consolidated annual accounts, prepared by the directors at a board meeting held on 17 March 2006, have been prepared on the basis of the individual accounting records of the Company and of each of the companies comprising the Tubacex Group (see note 1). These consolidated annual accounts include certain adjustments and reclassifications to bring the accounting and presentation criteria used by the companies of the Group into line with those employed in the preparation of these consolidated annual accounts.

The 2005 consolidated annual accounts are pending approval by the shareholders at their annual general meeting. Nevertheless, the directors consider that these consolidated annual accounts will be approved without significant changes.

2.2 Relevant accounting estimates, assumptions and judgements

The preparation of consolidated annual accounts in conformity with EU-IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and

associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Nevertheless, actual results may differ from these estimates.

The Group's consolidated annual accounts for 2005 include management's estimates and judgements on the value of assets, liabilities, income, expenses and commitments recognised, which were subsequently ratified by the board of directors.

Although estimates were based on the best information available at 31 December 2005, future events may require these estimates to be modified in subsequent years.

No significant changes to judgements or accounting estimates made by the Company in prior years occurred in 2005.

2.3 Business combinations

The Group has applied the exception provided for in IFRS 1, and only recognises business combinations carried out after 1 January 2004, the date of transition to EU-IFRS, using the purchase method. Companies acquired prior to this date are accounted for using accounting principles prevailing in Spain at the time.

Business combinations after this date are accounted for by applying the purchase method. This consists of identification of the acquirer (the entity which obtains control over the other entities which comprise the business combination), measurement of the cost of the business combination and allocation, on the acquisition date, of the business combination's costs to the identifiable assets, liabilities and contingent liabilities (net identifiable assets) of the acquiree.

The business combination is measured as the aggregate of: the fair values at the date of exchange, assets contributed, liabilities incurred or assumed (including contingent liabilities if reasonably measurable) and equity instruments issued by the acquirer, in exchange for control over the acquiree, plus any costs directly attributable to the business combination. Any adjustment to the cost of the combination that is contingent on future events is included in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

This criteria is not applied to non-current assets or disposal groups that are classified as held for sale, which are recognised at fair value less costs to sell.

The excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, any excess remaining after reassessment must be recognised by the acquirer in profit or loss.

2.4 Transition to EU-IFRS

2005 is the first year in which the Group has prepared its consolidated annual accounts in accordance with EU-IFRS. The last consolidated accounts prepared under Spanish GAAP corresponded to the year ended 31 December 2004 and, accordingly, the transition date to EU-IFRS is 1 January 2004.

As required by IFRS 1, First-time Adoption of International Financial Reporting Standards, the Group has retroactively adjusted the balances in its annual accounts for the year ended 31 December 2004, including the opening balances at 1 January 2004, to adapt them to IFRS. Details of the effect on equity of the retroactive adjustments and the compulsory exceptions and options applied in the preparation of the first consolidated financial statements under EU-IFRS, are as follows:

2.4.1 Exceptions to retroactive application

As permitted under first-time adoption, the Group has opted to apply the following exemptions to the retrospective application of EU-IFRS:

- Business combinations
The Group has applied the exemption contemplated in IFRS 1 regarding business combinations. Consequently, business combinations which occurred prior to 1 January 2004 (the date of transition) have not been restated.
- Fair value as deemed cost
The Group has elected to maintain property, plant and equipment revalued in prior years in accordance with prevailing Spanish legislation at the time at their carrying amount and use that carrying amount as the deemed cost.
- Cumulative translation differences
The Group has opted to cancel cumulative translation differences prior to 1 January 2004 and reclassify them to reserves.

- Non-restatement of comparative information regarding IAS 32 and IAS 39

The Group has decided to apply this exemption. Consequently, Spanish GAAP has been applied to derivatives, financial assets and liabilities and hedging operations in the comparative information for 2004. At 1 January 2005 all required adjustments between Spanish GAAP and IAS 32 and IAS 39 have been considered and recognised. The main difference in criteria between Spanish GAAP applied to the comparative information for 2004 and IAS 32 and 39 applied as of 1 January 2005 and the effects of transition thereto are described in note 2.4.3.

- Designation of financial assets and financial liabilities

The Group has reclassified several financial assets as available-for-sale investments and financial assets at fair value through profit and loss. Adjustments to the opening balance sheet at 1 January 2005 (date of transition to IAS 32 and 39) under IAS 32 and 39 are detailed in note 2.4.3.

2.4.2 Reconciliation of EU-IFRS with Spanish GAAP

IFRS 1 requires that the first consolidated annual accounts prepared in accordance with IFRS include a reconciliation of equity at the beginning and close of the prior comparative year and the result for the year then ended to the amounts accounted for in accordance with Spanish GAAP.

A reconciliation of consolidated equity and results for 2004 under Spanish GAAP and IFRS is as follows:

		Thousands of Euros	
	Equity 01.01.04	Profit 2004	Equity 31.12.04
Initial balance under Spanish GAAP	173,929	13,512	184,121
Adjustments from adaptation to IFRS:			
Commitments with personnel	-	(284)	(284)
Temporary differences	(b) 955	115	1,070
Reclassification of negative consolidation differences	(c) 429	-	429
Tax credits	(595)	905	310
Goodwill amortisation	(a) -	1,171	1,171
Other items	36	(36)	-
	174,754	15,383	186,817

The most significant differences in equity at 1 January 2004 and 31 December 2004 and profit for the year then ended as a result of the application of IFRS are as follows:

- The Group has applied IFRS 3 to all business combinations as of 1 January 2004 (date of transition to IFRS). Additionally, as of 1 January 2004 goodwill is no longer amortised under IFRS but tested regularly for impairment.

As a result of this adjustment, goodwill amortisation of Euros 1,171 thousand has been derecognised during the year ended 31 December 2004.
- Certain subsidiary companies abroad have recognised the fiscal effect of provisions for personnel indemnities, thus increasing opening reserves by Euros 955 thousand and profit for the year by Euros 115 thousand.
- Under Spanish GAAP, negative differences arising from the derecognition of investments against the corresponding asset on the acquisition date (negative goodwill) are recorded as a liability. Under IFRS, this negative difference has been credited to opening reserves at 1 January 2004.

2.4.3 Adoption of IAS 32 and IAS 39 on 1 January 2005

The Group has opted to apply the exemption from restating comparative information as regards application of IAS 32 and IAS 39. Consequently, the presentation, measurement and breakdown criteria applied to financial instruments in 2004 will reflect Spanish GAAP, and the necessary adjustments between Spanish GAAP and IAS 32 and IAS 39 have been considered and recognised at 1 January 2005.

A reconciliation of equity between 31 December 2004 and 1 January 2005 as a result of the application of IAS 32 and 39 from that date is as follows:

	Thousands of Euros
Balance at 31 December 2004	186,817
IAS 32 and IAS 39 adjustments: Own shares	(2,519)
Restated balance at 1 January 2005	184,298

The Group has reclassified own shares, which under Spanish GAAP were recorded as financial assets, to a negative reserve as a reduction in equity.

(3) DISTRIBUTION OF PROFIT

The proposed distribution of Tubacex, S.A. profit for 2005, prepared by the directors and pending approval by the shareholders at their annual general meeting, and the approved distribution of 2004 profit, are as follows:

	Thousands of euros	
	2005	2004
Dividend of Euros 0.076 per ordinary share (Euros 0.05 in 2004)	10,166	6,756
Voluntary reserves	1,409	1,724
Other reserves	1,286	3,909
Total distributable profit	12,861	12,389

(4) SIGNIFICANT ACCOUNTING PRINCIPLES

The consolidated annual accounts have been prepared in accordance with the accounting principles set out in the International Financial Reporting Standards endorsed by the European Union (EU-IFRS).

The most significant accounting principles applied are as follows:

4.1 Going concern and accruals basis

The consolidated annual accounts have been prepared on a going concern basis.

Income and expenses are recognised on an accruals basis, irrespective of collections and payments.

4.2 Consolidation criteria

All consolidated companies are subsidiaries. "Subsidiary companies" are all entities over which the Company exercises control. Control is defined as the power to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities.

Since 1 January 2004, the date of the Group's transition to EU-IFRS, the assets, liabilities and contingent liabilities of subsidiary companies are stated at fair value at the acquisition date. Any excess in the cost of the investment over the fair value of the net identifiable assets is recognised as goodwill. If the fair value of the net identifiable assets exceeds the cost of the acquisition, any excess remaining after reassessment is recognised in profit or loss.

The financial statements of subsidiary companies correspond to the same reporting date and period as that of the parent.

Details of subsidiary companies are shown in Appendix I to these notes.

Although the Group exercises effective control over certain SBER subgroup subsidiaries (see Appendix I), the effect is immaterial and they are therefore accounted for using the equity method, i.e. at the equity of the investment less dividends and any impairment losses. The Group's share of profit or loss in these subsidiaries is recognised as an increase or decrease in the investment with an equivalent entry in "Share of profit in companies accounted for using the equity method" in the consolidated income statement. The Group's share of total income and expenses recognised by the subsidiary directly in equity since the acquisition date is recorded as an increase or decrease in the investment with an equivalent, separate entry under equity.

4.3 Foreign currency transactions

4.3.1 Functional and presentation currency

The annual accounts of each group entity are stated in the main currency in which it operates (functional currency). The consolidated annual accounts are presented in Euros, which is the functional and presentation currency of the Company.

4.3.2 Foreign currency transactions, balances and cash flows in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Cash flows from transactions in foreign currency are translated into Euros in the consolidated cash flow statement at the exchange rate prevailing at the transaction date. The effect of variations in exchange rates on cash and cash equivalents expressed in foreign currencies is presented separately in the consolidated cash flow statement.

4.3.3 Translation of foreign business

The results and financial position of group entities the functional currency of which differs from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated using the exchange rate prevailing at each transaction date; and
- Translation differences arising from application of the above criteria are recognised as a separate component of net equity.

Translation differences from foreign business transactions recorded in equity as of the transition date (see note 2.4.1) are accounted for in the consolidated income statement when the results of the disposal of these transactions are recognised.

4.4 Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition, less accumulated depreciation and any impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset. The cost of constructing an asset is capitalised under "Self-constructed non-current assets" in the consolidated income statement.

Depreciation of property, plant and equipment is based on cost of acquisition less residual value and provided for on a straight line basis over the estimated useful lives of the assets as follows:

	Estimated useful life
Buildings	25 - 48
Plant and machinery	5 - 20
Other installations, equipment and furniture	5 - 10

The Group reassesses residual values, useful lives and depreciation methods at the end of each financial year. Changes to the initially established criteria are recognised as a change in estimates.

The carrying amount of an asset is reduced to its estimated recoverable amount, when the former exceeds the latter.

Replacements of property, plant and equipment which meet the requirements for capitalisation are recognised together with a reduction of the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it has not been practical to determine the respective carrying amount, the replacement cost is used as indicative of the cost of items at the time of acquisition or construction.

4.5 Intangible assets

4.5.1 Goodwill

Goodwill (see note 2.3) generated on business combinations as of the transition date (1 January 2004) is initially recognised as the difference between the cost of acquisition and the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is no longer amortised but tested annually for impairment, or more frequently if there are indications of potential impairment. Goodwill generated on business combinations is allocated to cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the combination.

4.5.2 Greenhouse gas emission rights

Greenhouse gas emission rights are capitalised initially at cost of acquisition. Rights acquired free of charge or below market value are recognised initially at fair value with an equivalent entry under "Government grants" as deferred income.

The amounts recorded under government grants are taken to income in line with actual emissions compared to total forecast emissions for the entire period for which they were assigned. Emission rights are not amortised.

4.5.3 Other intangible assets

Other intangible assets are stated at cost, less accumulated amortisation and impairment losses.

Software

Software licenses are capitalised based on the cost of acquiring the software and preparing it for use and are amortised on a straight line basis over the five-year period of expected use.

Software maintenance costs are expensed when incurred.

4.5.4 Useful lives and amortisation

The Group assesses whether the useful life of each intangible asset acquired is defined or indefinite. An intangible asset is considered to have an indefinite useful life where there is no foreseeable limit to the period over which it will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually.

Intangible assets with defined useful lives are amortised on a straight-line basis over the five-year period of expected use.

Intangible assets are amortised at cost of acquisition less residual value. The Group reassesses residual values, useful lives and amortisation methods at the end of each financial year. Changes to initially established criteria are recognised as a change in estimates.

4.6 Investment property

Investment properties are land and buildings which are held either to earn rental income or for capital appreciation or for both rather than for use in production or the supply of goods, administrative purposes or held for sale during the ordinary course of business.

Investment properties mainly comprise a shopping centre in Torrejón de Ardoz (Madrid, Spain) belonging to the Group, which is not owner-occupied but let out to earn long-term rental income.

Investment properties are initially stated at cost of acquisition, including any costs associated with the transaction.

Subsequent to initial recognition, the Company applies the same criteria as for property, plant and equipment (see note 4.4).

4.7 Financial assets

From 1 January 2004 to 31 December 2004

Fixed or variable income securities are recorded at the lower of cost and market value. Market value is calculated for each category of investment as follows:

- Quoted securities: the lower of the average quotation for the last quarter and the closing quotation.
- Unquoted securities: the underlying net book value of the security from the latest available annual accounts.

The criteria for recognising and measuring trade and other receivables are detailed in note 4.9.

Since 1 January 2005

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. This classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet only when the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Nevertheless, the Group informs of the enforceable right to offset financial assets and liabilities.

Acquisitions and disposals of financial assets are recognised at the date of negotiation, i.e. the date at which the Group undertakes to acquire or sell the asset.

4.7.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets when maturity is within twelve months of the balance sheet date.

Loans and receivables are initially recognised at fair value, including transaction costs incurred on inception of the financial asset and are subsequently carried at amortised cost using the effective interest method.

4.7.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity. During the year, the Group did not sell or reclassify any investments in this category.

Held-to-maturity investments are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition and are subsequently carried at amortised cost using the effective interest method.

4.7.3 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

4.7.4 Amortised cost

The amortised cost of a financial asset or liability is the amount at which the asset or liability was initially measured, less repayments of the principal, plus or minus imputed or gradually accumulated amortisation, based on the effective interest method, any difference between the initial value and repayment value on maturity, less any reduction due to impairment or defaults.

The effective interest rate is the discount rate when applied to the estimated cash inflows and outflows over the expected life of the financial instrument.

4.7.5 Impairment

The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance sheet date.

The amount of the impairment loss on assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in profit or loss and may be reversed if the decrease of the impairment loss can be related objectively to an event occurring after the impairment was recognised. However, the loss can only be reversed up to the limit of the amortised cost which the assets would have had if the impairment loss had not been recorded. The Group recognises these impairment losses through a corrective provision.

4.8 Derivatives and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to exchange rate risks arising from its activities, although it has opted not to apply hedge accounting.

Derivative financial instruments are recognised initially at cost and subsequently stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss as financial income or expense.

4.9 Trade and other receivables

1 January 2004 to 31 December 2004

Part of the consolidated Group's sales are collected by means of accepted or unaccepted notes drawn against national customers, and remittances and documentary letters of credit granted by financial institutions in the case of foreign customers. Discounted notes pending maturity at 31 December 2004 are included in the accompanying consolidated balance sheet under "Trade and other receivables" with an equivalent credit balance under current "Interest-bearing loans and borrowings". Discounting costs are expensed when incurred and are not deferred over the discount period, as the effect of such deferral would be immaterial to operating results.

Provision was made for bad debts in respect of overdue balances and when circumstances indicated doubtful collection.

As of 1 January 2005

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

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate, and is recognised in the income statement.

4.10 Inventories

Inventories comprise non-financial assets held by consolidated entities for sale in the ordinary course of business, which are in the process of production, construction or development for eventual sale or for use in the rendering of services.

Inventories are measured at the lower of cost and net realisable value. Cost comprises all purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and those necessary to make the sale.

The formula for determining the cost used for each type of inventory is as follows:

- a. Goods for resale: at weighted average cost of acquisition.

- b. Raw materials and goods held for conversion: at weighted average cost.
- c. Finished goods and work in progress: at weighted average cost of raw and other materials consumed, including costs directly related to the units produced and the applicable portion of direct, indirect and variable costs incurred during the conversion process. Indirect costs are incorporated based on normal or actual production.

The cost of inventories is adjusted when cost exceeds net realisable value. Net realisable value is considered as the following:

- Raw materials and other supplies: replacement cost. However, materials are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost;
- Goods for resale and finished products: estimated selling price, less estimated costs necessary to make the sale;
- Work in progress: the estimated selling price for the corresponding finished products, less estimated costs of completion and those necessary to make the sale.

Inventory adjustments and reversals are recognised in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed against "Increase in stocks of finished products and work in progress" and "Raw materials and other consumables". Write-downs may be reversed to the limit of the lower of cost and the new net realisable value.

4.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits with banks and other short-term highly-liquid investments with original maturities of three months or less. Bank overdrafts are included for the purposes of the statement of cash flows as a component of cash and cash equivalents and are recognised as financial liabilities in the consolidated balance sheet.

The Group recognises cash flow corresponding to interest received under investment activities and interest paid under financing activities. Dividends and interest paid are classified under financing activities.

4.12 Impairment of non-financial assets subject to amortisation or depreciation

The Group regularly tests consolidated assets which are not considered financial assets, inventories, deferred tax assets and non-current available-for-sale assets to determine whether their carrying amount exceeds their recoverable amount (impairment). The impairment testing criteria for these assets is described in previous sections.

Irrespective of whether any indication of impairment exists, the Company performs, at least annually, impairment testing of goodwill and intangible assets that have an indefinite useful life.

4.12.1 Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less selling costs and value in use. An asset's value in use is calculated based on the expected future cash flows deriving from use of the assets, expectations of possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Recoverable amounts are calculated for individual assets, unless the asset does not generate cash inflows that are largely independent from those corresponding to other assets or groups of assets. In this case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

4.12.2 Reversal of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation and depreciation, had no impairment loss been recorded.

The reversal of an impairment loss of a CGU is distributed between its assets, except goodwill, pro rata on the basis of the carrying amount of the assets, to the extent of the limit described in the preceding paragraph.

4.13 Share capital

Until 1 January 2005 company shares acquired by subsidiaries or by the Company itself were classified as parent company shares under current or non-current assets in the consolidated balance sheet. Company shares were stated at the lower of cost and market value, the latter of which was the lowest of the following:

- The average quotation of the last quarter;
- The closing quotation;
- The underlying net book value in the Company's annual accounts, adjusted to take into account any latent unrecorded goodwill at the acquisition date.

Provision was made for a decline in value of company shares. Nevertheless, as the shares were listed, the difference between market and underlying net book value was charged to reserves and the additional provision was taken to profit and loss.

As of 1 January 2005

Financial instruments are initially classified as a financial asset, financial liability or equity instrument based on the economic fund of the contractual agreement and in accordance with the definitions of financial asset, financial liability or equity instrument in IAS 32 "Financial Instruments: Presentation and Disclosure".

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of equity instruments, except those incurred on the issue of equity instruments as a result of a business combination, are recorded as a deduction from equity, net of any related tax incentives or tax effect.

The cost of acquiring own shares or the amounts deriving from subsequent sale are presented in a separate category of consolidated equity (see note 14). No income or losses derived from the purchase, sale, issue or redemption of the Company's equity instruments are recognised.

4.14 Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings or partial borrowings are derecognised when the corresponding obligations have been met, cancelled or have expired.

4.15 Employee benefits

4.15.1 Pension commitments

The Group has assumed certain commitments with employees that comply with the conditions for them to be classified as defined contribution plans, and which involve contributions to a Voluntary Social Welfare Entity. A separate part of these commitments was covered in prior years by contracting a single premium insurance policy.

4.15.2 Other long-term employee benefits

According to commitments assumed by certain subsidiary companies with their employees, the Group is obliged to award length-of-service bonuses upon retirement, which are settled more than twelve months after the close of the period in which they are accrued.

4.15.3 Profit-sharing and bonus schemes

The Group recognises profit-sharing and bonus schemes in consolidated profit and loss where contractually obliged or where a past practice has created a constructive obligation that can be reliably estimated.

4.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The amounts recognised as a provision are the best estimate of the outflows required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties related with the provision and, where significant, the effect of the time value of money, provided that the outflows required in each period can be reliably measured.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed against the consolidated income statement caption where the corresponding expense was recorded, and any excess is recognised as other income.

4.17 Trade and other payables

Trade and other payables are stated at the fair value of the consideration received. Subsequent to initial recognition, balances are recognised at amortised cost.

4.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business, net of VAT and any other amounts or taxes which, in substance, correspond to amounts received from third parties.

4.18.1 Sale of goods

Revenues on the sale of goods are recognised when the Group has delivered the goods, the customer has accepted them, the collectability of the corresponding receivables is reasonably assured and expected returns can be reliably measured.

4.18.2 Rendering of services

Revenues on services rendered are recognised in the year in which the services are rendered.

4.18.3 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

Capital grants

Government grants involving the transfer of non-monetary assets are recognised at fair value with a credit to "Government grants" in the consolidated balance sheet and are taken to "Other income" in the consolidated income statement in line with the depreciation of the financed assets.

Operating grants

Operating grants are recognised as a reduction in the expense being financed.

Operating grants are recognised with a credit to "Other income" in the consolidated income statement in the same period as the associated costs are incurred.

Interest rate grants

Financial liabilities incorporating implicit aid in the form of lower-than-market interest rates are recognised initially at fair value. The difference between fair value, adjusted where applicable for the issuing costs of the liability and the amount received, is recorded as a government grant in line with the nature of the grant received.

4.18.4 Dividend income

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

4.19 Leases

Lease operations are classified as finance leases and operating leases. Unlike operating leases, under finance leases the significant risks and rewards of ownership of the contract asset are transferred.

4.19.1 Operating leases: lessor

Assets leased to third parties under operating lease contracts are included under investment properties in the consolidated balance sheet and are depreciated over their useful lives using criteria consistent with that applied by the Group to similar items. Lease income from operating leases, net of any incentives, is recognised on a straight-line basis over the lease term.

4.19.2 Operating lease: lessee

Operating lease instalments are charged to the income statement on a straight-line basis over the lease term.

4.20 Income tax

Income tax comprises current and deferred tax. Income tax, whether current or deferred, is recognised in the income statement and is included in the determination of net profit or loss for the year.

Current tax is the expected tax payable or recoverable in respect of the taxable profit or tax loss for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable or recoverable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax liabilities comprise income tax payable in future periods in respect of taxable temporary differences, whereas deferred tax assets correspond to income tax recoverable in future periods in respect of deductible temporary differences, tax loss carryforwards or deductions pending application.

The Group has recognised deferred tax assets and liabilities deriving from temporary differences, except those relating to the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, using tax rates enacted or substantially enacted at the balance sheet date and reflecting the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. All deferred tax assets, whether recognised or not, are subject to annual review. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised, and increased in the event of recovery of the possibility of obtaining future taxable profits against which these balances can be offset.

The Group only offsets tax assets and liabilities where it has a legally enforceable right, and when it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are recognised in the consolidated balance sheet under non-current assets or liabilities, irrespective of the date of realisation or settlement.

4.21 Segment reporting

A business segment is a distinguishable component of the Group that is engaged either in providing products or services which are subject to risks and rewards that are different from those of other segments within the Group. To determine whether products or services are related, the Group considers the risk and rewards of the product or service.

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that these are subject to risks and returns that are different from those of components operating in other economic environments. When identifying geographical segments, the Group considers the risks and rewards of the markets in which it sells its products.

4.22 Classification of assets and liabilities as current and non-current

Assets and liabilities in the consolidated balance sheet are classified as current and non-current. Current assets and liabilities are those which comply with the following criteria:

- Assets are classified as current when they are expected to be realised, sold or traded in the Group's ordinary course of business within twelve months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability for at least twelve months after the balance sheet date.
- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within twelve months of the balance sheet date, even if the original maturity exceeded twelve months and a refinancing or restructuring agreement for long-term payments exists which has been finalised after the closing date and before the consolidated annual accounts have been prepared.

(5) PROPERTY, PLANT AND EQUIPMENT

Details of and movement in property, plant and equipment in 2005 and 2004 are as follows:

	Thousands of Euros						31.12.04	Additions	Disposals	Transfers	Translation differences	31.12.05
	31.12.03	Additions	Disposals	Transfers	Translation differences	Acquisitions through business combinations						
Revalued cost												
Land	13,621	2,289	-	-	(17)	-	15,893	-	-	-	18	15,911
Buildings	64,697	481	-	18	(207)	-	64,989	1,703	(8)	207	420	67,311
Plant and machinery	262,410	7,185	(363)	504	(1,570)	21	268,187	10,450	(2,152)	1,027	3,096	280,608
Other installations, equipment, furniture and other assets	14,955	2,733	(989)	568	(59)	33	17,241	1,556	(1,071)	570	137	18,433
Advances and work in progress	837	1,525	(7)	(1,090)	(10)	-	1,255	2,148	(31)	(1,804)	69	1,637
	356,520	14,213	(1,359)	-	(1,863)	54	367,565	15,857	(3,262)	-	3,740	383,900
Restated accumulated depreciation												
Buildings	(45,587)	(1,793)	-	-	58	-	(47,322)	(1,805)	-	(132)	(154)	(49,413)
Plant and machinery	(197,044)	(9,899)	168	-	125	(14)	(206,664)	(10,052)	2,152	(1,179)	(276)	(216,019)
Other installations, equipment, furniture and other assets	(12,708)	(1,790)	700	-	270	(19)	(13,547)	(2,023)	589	1,311	(642)	(14,312)
	(255,339)	(13,482)	868	-	453	(33)	(267,533)	(13,880)	2,741	-	(1,072)	(279,744)
Accumulated impairment losses	(10,454)	-	-	-	763	-	(9,691)	-	-	-	(1,489)	(11,180)
Net balance	90,727	731	(491)	-	(647)	21	90,341	1,977	(521)	-	1,179	92,976

5.1 Insurance

The consolidated group has contracted sufficient insurance coverage for the risk of damage to its property, plant and equipment.

5.2 Impairment

As a result of the decision taken at the end of 2002 to interrupt the industrial activity of the subsidiary Altx, Inc., a provision of Euros 14,000 thousand was made, with a charge to consolidated profit, in order to record the fixed assets of this company at their liquidation value, as determined by an independent expert. At 31 December 2005 and 2004, provisions for property, plant and equipment amounted to Euros 11,180 thousand and Euros 9,691 thousand, respectively.

(6) INTANGIBLE ASSETS

Details of and movement in the main classes of intangible assets are as follows:

	Thousands of euros			Total
	Works of art	Other intangible assets	Goodwill	
1 January 2004				
Cost	5,711	8,347	17,925	31,983
Accumulated amortisation and impairment losses	(2,053)	(5,629)	-	(7,682)
Net carrying amount	3,658	2,718	17,925	24,301
Additions due to business combinations	-	-	350	350
Additions	-	861	-	861
Disposals	-	(29)	-	(29)
Amortisation charge	-	(1,505)	-	(1,505)
	3,658	2,045	18,275	23,978
31 December 2004				
Cost	5,711	9,118	18,275	33,104
Accumulated amortisation and impairment losses	(2,053)	(7,073)	-	(9,126)
Net carrying amount	3,658	2,045	18,275	23,978
Translation differences	-	4	-	4
Additions	-	1,469	-	1,469
Amortisation charge	-	(1,594)	-	(1,594)
	3,658	1,924	18,275	23,857
31 December 2005				
Cost	5,711	10,561	18,275	34,547
Accumulated amortisation and impairment losses	(2,053)	(8,637)	-	(10,690)
	3,658	1,924	18,275	23,857

Goodwill is mainly attributable to the acquisition of SBER and SBER Immobilien, and has been allocated to the Group's cash generating units in accordance with the country of operation and the business segment. Goodwill generated on the acquisition of these companies amounts to Euros 17,281 thousand in 2004 and 2005.

The recoverable amount of a CGU is determined using value in use calculations, which employ cash flow projections based on financial forecasts approved by management which cover a period of five years. Cash flows beyond this five-year period are extrapolated using an estimated perpetual growth rate of 2%. The pre-tax discount rate applied to cash flow projections was 6.08%.

Additionally, goodwill of Euros 644 thousand was generated on the acquisition of Schoeller-Bleckmann Technisches Service GmbH, and in 2004 the purchase of the French company Métaux Inox Services, S.A.S. gave rise to goodwill of Euros 350 thousand.

According to the directors' estimates and projections, the amount of goodwill recorded is supported by forecast net cash flows attributable to this CGU.

(7) INVESTMENT PROPERTY

In prior years, the Company acquired a shopping centre in Torrejón de Ardoz (Madrid, Spain), the net carrying amount of which was Euros 3,813 thousand at 31 December 2005 (Euros 3,984 thousand in 2004). A lease contract was entered into in 2002 which had a call option for a period of sixty three months as of 1 October 2002 for a variable amount based on the exercise date: prior to 31 December 2004, Euros 4,207 thousand; Euros 4,407 thousand between 31 December 2004 and 2005; Euros 4,608 thousand between 31 December 2005 and 2006 and Euros 4,808 thousand between 31 December 2006 and 2007.

Until the option is exercised, i.e. between 1 October 2002 and 31 December 2007, the premises will remain leased to a third party for a monthly rent of Euros 10 thousand. Total income accrued this year, including other items, amounts to Euros 120 thousand and is recorded under "Other income" in the consolidated income statement at 31 December 2005.

The fair value of investment property at 31 December 2005 amounts to approximately Euros 5,592 thousand.

(8) FINANCIAL ASSETS

Details of this caption of the consolidated balance sheet at 31 December are as follows:

	Thousands of euros	
	2005	2004
Held-to-maturity investments	7,635	7,635
Available-for-sale financial assets	213	121
Loans	741	1,192
	8,589	8,948

Financial assets classified as held-to-maturity correspond to SBER investments in the form of long-term bonds, part of which are used to secure long-term loans extended to this company (see note 16). The outstanding principal of these loans at 31 December 2005 amounts to Euros 2,323 thousand (Euros 2,682 thousand in 2004).

The average maturity of these bonds is between 5 and 6.2 years.

The effective average interest rate of these instruments is 4.06%. The total amount of interest income on held-to-maturity investments calculated using the effective interest rate is Euros 385 thousand (Euros 393 thousand in 2004). The fair value of held-to-maturity investments is Euros 7,833 thousand (Euros 7,759 thousand in 2004), which is based on market value at 31 December 2005.

In order to classify these assets under this category, the Group has assessed its ability to hold them until maturity.

On 23 September 2002 Tubacex Taylor Accesorios, S.A. sold its 40% investment in the share capital of COTUSA for Euros 2,734 thousand. At 31 December 2005 the remaining balance to be collected amounted to Euros 1,595 thousand, Euros 684 thousand of which is recorded under loans as it matures in 2008 (Euros 1,139 thousand in 2004).

(9) DERIVATIVE FINANCIAL INSTRUMENTS

9.1 Foreign currency forward contracts

The Group hedges its exchange rate exposure through forward currency operations.

The total par value of all forward currency contracts amounts to Euros 26,621 thousand (Euros 10,345 thousand in 2004), of which Euros 444 thousand has been contracted to hedge US Dollar balances payable to a foreign supplier, and Euros 26,177 thousand has been used to cover customer balances invoiced and pending invoice.

Details of the par values of forward currency contracts by term to maturity and type of currency at 31 December are as follows:

	Thousands of euros					
	US Dollar	2005 Pound Sterling	Canadian Dollar	US Dollar	2004 Pound Sterling	Canadian Dollar
Up to one year	21,342	4,500	779	7,679	1,972	694

The fair values of these forward contracts have been estimated by discounting cash flows using publicly available forward exchange rates.

9.2 Interest rate swaps

The Group hedges its interest rate exposure through interest rate swaps, details of which are as follows:

Par value in thousands of euros	Start date	Maturity	Interest rate
10,000	1.12.05	1.12.10	2.8025%
6,000	30.06.03	31.12.07	3.75%
6,000	1.09.05	1.09.09	3.0525%
5,000	1.09.05	1.09.10	3.03%
5,000	1.09.05	1.09.10	2.9925%
4,000	1.03.05	1.03.09	3.03%

(10) INVENTORIES

Details of this caption of the consolidated balance sheet at 31 December are as follows:

	Thousands of euros	
	2005	2004
Goods for resale	30,173	22,375
Raw materials and goods for conversion	43,302	42,734
Work in progress	38,602	25,928
Finished products	48,894	32,673
Other items	1,963	416
	162,934	124,126
Provisions	(3,213)	(2,830)
	159,721	121,296

(11) TRADE AND OTHER RECEIVABLES

Details of this caption of the consolidated balance sheet at 31 December are as follows:

	Thousands of euros	
	2005	2004
Trade receivables	104,810	90,035
Trade loans with companies accounted for using the equity method	583	675
Sundry debtors	884	1,193
Public entities	17,250	8,841
	123,527	100,744
Provisions	(1,526)	(2,062)
	122,001	98,682

Accounts receivable from public entities at 31 December are as follows:

	Thousands of euros	
	2005	2004
Tax authorities		
VAT	14,152	7,754
Other items	481	92
Government grants	18	19
Other items	2,599	976
	17,250	8,841

(12) CASH AND CASH EQUIVALENTS

Details of this caption of the consolidated balance sheet at 31 December are as follows:

	Thousands of euros	
	2005	2004
Cash in hand and at banks	16,644	8,347
Short-term deposits with banks	1,733	489
Short-term deposits	2,925	2,768
	21,302	11,604

Short-term deposits include Euros 1,728 thousand corresponding to the liquidating value of money market investment funds, which earn effective gross annual interest of between 1.68% and 7.27%.

(13) DEFERRED TAXES

Details of deferred tax assets and liabilities, by type, at 31 December are as follows:

	Thousands of euros			
	Assets		Liabilities	
	2005	2004	2005	2004
Provisions	1,220	1,152	-	-
Other items	334	379	1,140	1,019
Tax loss carryforwards	13,297	17,230	-	-
Deductions and credits	8,796	7,745	-	-
Total	23,647	26,506	1,140	1,019

Details of movement by type of deferred tax asset and liability which have been recognised as deferred tax expense/(income) in the consolidated income statement are as follows:

	Thousands of euros			
	Assets		Liabilities	
	2005	2004	2005	2004
Provisions	(68)	(115)	-	-
Other items	45	(84)	121	(422)
Tax loss carryforwards	3,933	2,913	-	-
Deductions and credits	(1,051)	(443)	-	-
Total (note 23)	2,859	2,271	121	(422)

Details of deferred tax assets and liabilities whose realisation or reversal period exceeds twelve months are as follows:

	Thousands of euros	
	2005	2004
Tax loss carryforwards	4,202	7,183
Deductions and credits	7,717	6,665
Total assets	11,919	13,848
Deferred tax liabilities	1,140	1,019
Net amount	10,779	12,829

(14) EQUITY

14.1 Capital

At 31 December 2005 and 2004 share capital consists of 132,978,782 shares of Euros 0.45 par value each, fully subscribed and paid. All shares have equal voting and profit-sharing rights, except for own shares, the voting rights of which have been suspended and the profit-sharing rights of which are attributed in proportion to the remaining shares. The Company's entire share capital is listed on the Spanish organised stock market.

There are no transfer restrictions of shares in the parent.

At 31 December 2005 and 2004 no legal entity directly or indirectly held more than 10% of the share capital of Tubacex, S.A.

The Tubacex, S.A. by-laws establish, inter alia, that no shareholder may cast more than 5% of the total number of votes present at any general shareholders' meeting, irrespective of the number of shares held. In this regard, one or more persons that share any form of related influence or control shall be considered to be a single shareholder.

14.2 Share premium

This reserve is freely distributable.

14.3 Other reserves

Details of other reserves at 31 December 2005 and 2004 are as follows:

	Thousands of euros	
	2005	2004
Legal reserve	10,216	8,977
Voluntary reserves		
Other parent company reserves	45,217	46,069
Own share reserve	2,519	2,519
Revaluation reserves	3,764	3,764
Reserves for restatements into Euros	101	101
	61,817	61,430

Legal reserve

The legal reserve has been created in conformity with Article 214 of the Companies Act, which states that companies are obliged to transfer a minimum of 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital.

This reserve is not distributable to shareholders, may only be used to offset losses if no other reserves are available and must be reappropriated with future profits.

Other parent company reserves

This entry corresponds to voluntary reserves, which are freely distributable.

Revaluation reserves

As permitted by prevailing Spanish legislation, at 31 December 1996 the Company revalued its tangible assets. Since the tax inspection period has elapsed, the balance of the reserve may be applied, free of tax, as follows:

- To offset prior years' losses.
- To increase share capital, subsequent to the elimination of loss carryforwards and the establishment of the legal reserve.
- To increase non-distributable reserves by the amount not used for the purposes stated above.

14.4 Own share reserve

The own share reserve corresponds to the cost of parent company shares held by the Group. At 31 December 2005 and 2004 the Group held 1,915,306 own shares.

Details of shares held by the parent company at 31 December 2005 and 2004 are as follows:

Company	Number	Euros	
		Par value	Average acquisition price
Tubacex, S.A.	1,915,306	0.45	1.3152

14.5 Recognised income and expense

As mentioned in note 2.4.1, the Group opted to apply the exemption concerning translation differences as permitted under IFRS 1 first time adoption rules. Consequently, translation differences included under equity refer to those generated as of 1 January 2004.

14.6 Dividends and restrictions on dividend distribution

Dividends on 2004 profit distributed by Tubacex, S.A. in 2005 amounted to Euros 6,756 thousand (Euros 2,420 thousand in 2004), which is equivalent to Euros 0.05 per share (Euros 0.018 per share in 2004).

(15) EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in circulation throughout the year, excluding own shares.

	Thousands of euros	
	2005	2004
Profit attributable to ordinary shareholders	25,424	15,383
Weighted average number of ordinary shares in circulation	131,063,476	131,063,476
Basic earnings per share	0.194	0.117

The weighted average number of ordinary shares in circulation is determined as follows:

	2005	2004
Ordinary shares in circulation at 1 January	132,978,782	132,978,782
Effect of own shares	(1,915,306)	(1,915,306)
Weighted average number of ordinary shares in circulation at 31 December	131,063,476	131,063,476

(16) INTEREST-BEARING LOANS AND BORROWINGS

Details of this caption of the consolidated balance sheet at 31 December are as follows:

	Thousands of euros	
	2005	2004
Non-current		
Bank loans	12,295	15,358
Current		
Bank loans	134,713	100,077
Loans	325	192
	135,038	100,269

The effective interest rate of bank loans during 2005 and 2004 has fluctuated between Euribor + 0.3% and Euribor + 0.65%.

Interest-bearing loans and borrowings are generally exposed to interest rate fluctuations and contractual dates on which prices are reviewed for less than six months.

Interest-bearing loans and borrowings are recorded at approximately fair value.

During 2003 the Company made early repayment of two loans granted by financial institutions to Altx, Inc. totalling Euros 9,803 thousand, for which Tubacex, S.A. was guarantor for a total amount of US Dollars 10,504,252, which included principal, outstanding interest and cancellation fees. This was done by contracting two long-term loans of Euros 6,000 thousand each, which mature on 30 December 2007 and 13 January 2008, respectively. These loans accrue interest at annual rates of Euribor plus 0.5% and 0.55%. At 31 December 2005 the outstanding debt amounted to Euros 9,000 thousand (Euros 12,000 thousand at 31 December 2004).

On 30 June 2003 the Company contracted an interest rate swap to hedge part of the aforementioned loans for a nominal amount of Euros 6,000 thousand which matures on 31 December 2007 and accrues secured interest of 3.75% (fixed interest of 3.20% plus the spread of the initial loan of 0.55%).

In 2005 the Company contracted interest rate swaps to hedge the interest rate on certain credit facilities for a nominal amount of Euros 30,000 thousand with an average interest rate of 2.95%.

Interest-bearing loans and borrowings include balances in the following currencies:

	Thousands of euros	
	2005	2004
US Dollars	57	41

At 31 December 2005 SBER has long-term loans to finance asset acquisitions amounting to Euros 2,323 thousand (Euros 2,682 thousand at 31 December 2004), which have been secured by long-term financial assets (see note 8).

(17) TRADE AND OTHER PAYABLES

Details of trade and other payables are as follows:

	Thousands of euros	
	2005	2004
Trade payables	53,379	43,707
Other payables		
Salaries payable	7,801	4,289
Social security	1,437	1,279
Public entities	4,139	2,333
Suspension of payments agreement	550	1,874
Other debts	328	2,876
	14,255	12,651
	67,634	56,358

(18) EMPLOYEE BENEFITS

Movement in the provision for employee benefits during 2005 and 2004 is as follows:

	Thousands of euros		
	Commitments with personnel	Others obligations	Total
Balances at 1 January 2004	5,045	4,831	9,876
Expense for the year	-	439	439
Benefits paid	(379)	-	(379)
Reversals	(467)	-	(467)
Balances at 31 December 2004	4,199	5,270	9,469
Expense for the year	5,094	459	5,553
Benefits paid	(495)	-	(495)
Reversals	(660)	-	(660)
	8,138	5,729	13,867

On 29 October 2002 the management of Tubacex, S.A. and subsidiary companies Acería de Alava, S.A. and Tubacex Tubos Inoxidables, S.A. and their respective workforces signed a relief contract agreement whereby the aforementioned companies undertook to offer all workers covered by the collective labour agreement who reach the age of 60 between January 2003 and 31 December 2005, inclusive, the possibility of taking voluntary partial retirement until the age of 65, upon which they would be removed from the company payroll.

On 14 April 2005 a new relief contract agreement was signed whereby as of 1 January 2006 and until 31 December 2008 the aforementioned companies undertake to offer all workers covered by the collective labour agreement partial retirement under the same conditions as the prior agreement.

At 31 December 2005 and 2004 the Group has made the necessary provisions to cover the liabilities estimated to accrue over the terms of the contracts mentioned above, amounting to Euros 8,138 thousand and Euros 4,199 thousand, respectively.

(19) PROVISIONS

The movement in provisions during 2005 and 2004 is as follows:

	Thousands of euros		
	Life insurance	Other	Total
1 January 2004	408	10,809	11,217
Charges	-	2,050	2,050
Applications	-	(105)	(105)
Reversals	-	(21)	(21)
Transfers	-	467	467
31 December 2004	408	13,200	13,608
Charges	-	1,462	1,462
Applications	(207)	(417)	(624)
Reversals	-	(501)	(501)
31 December 2005	201	13,774	13,945

The Group has provided for the estimated amount of tax debts and probable or certain liabilities arising from litigation in progress and for outstanding indemnities or obligations of an undetermined amount, guarantees or similar forms of security, payment of which is undetermined as regards their exact amount or when they will arise, as this depends on the fulfilment of certain conditions.

This caption also includes provisions for potential trade relations-derived contingencies.

(20) CONTINGENCIES

The Group has contingent liabilities for bank guarantees and other guarantees extended to third parties related to the ordinary course of business for a total amount of Euros 2,668 thousand (Euros 2,786 thousand in 2004). The directors of the Group do not expect significant liabilities to arise on account of these guarantees.

(21) OTHER OPERATING INCOME

Details of other operating income for 2005 and 2004 are as follows:

	Thousands of euros	
	2005	2004
Operating leases	154	103
Operating grants	1,146	401
Other income	2,679	1,036
	3,979	1,540

(22) PERSONNEL EXPENSES

Details for 2005 and 2004 are as follows:

	Thousands of euros	
	2005	2004
Wages and salaries	57,533	50,335
Contributions to voluntary social welfare entity	1,047	2,415
Social Security	16,116	15,219
Other welfare benefits	2,966	2,323
Employee benefits	4,893	439
	82,555	70,731

The average headcount of the Group, distributed by professional category, is as follows:

	2005	2004
Directors, engineers and university graduates	105	71
Technical engineers, experts and qualified assistants	57	94
Middle management	84	73
Assistants	57	53
Senior clerks	155	165
Porters	17	12
Production staff	1,153	1,049
	1,628	1,517

(23) INCOME TAX

Details of income tax for 2005 and 2004 are as follows:

	Thousands of euros	
	2005	2004
Current tax	4,852	2,754
Deferred tax (note 13) Origin and reversal of temporary differences	2,980	1,849
	7,832	4,603

A reconciliation of the tax expense with accounting profit is as follows:

	Thousands of euros	
	2005	2004
Profit before income tax	33,256	19,986
Expected parent company tax expense (2005 - 32.6%; 2004 - 32.5%)	10,841	6,495
Difference in subsidiary tax rates	(89)	718
Exempt income and non-deductible expenses	(1,890)	(475)
Tax credits	(2,809)	(2,116)
Deductions	(2,675)	(1,309)
Permanent differences	4,454	1,290
Expense for the year	7,832	4,603

A reconciliation of the current tax expense with current tax liabilities is as follows:

	Thousands of euros	
	2005	2004
Current tax expense	4,852	2,754
Payments on account during the year	(835)	(246)
	4,017	2,508

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2005 the Company and its subsidiaries in Spain have open to inspection by the tax authorities all main applicable taxes since 2002. The directors do not expect that any significant additional liabilities would arise in the event of inspection.

In accordance with Spanish tax legislation, losses declared may be carried forward to be offset against profits of the fifteen subsequent accounting periods, the amount being distributed as considered appropriate. Losses are offset when the tax declarations are filed, without prejudice to the tax authorities' power of inspection.

During 2005 certain amendments were made to fiscal legislation in Alava as a result of the various rulings issued by the High and Supreme Courts of the Basque Country which declared certain local income tax precepts to be null and void.

Although these rulings have been appealed by the local authorities, in compliance with the judicial rulings the Alava Regional Authorities issued new local legislation to replace the precepts declared null and void or those which were suspended by these rulings. This new legislation included Local Decree 4/2005 of 30 December which, inter alia, set the general income tax rate for 2005 at 32.6%. Subsequent to the year end, third parties have filed appeals requesting the suspension or annulment of certain prevailing precepts, the final outcome of which is pending resolution to date.

As the directors of the Company consider that the final outcome of these appeals will not have a significant effect on the annual accounts taken as a whole, they have calculated the income tax for 2005 and for the years open to inspection in accordance with local legislation prevailing at the end of each year.

(24) MANAGEMENT REMUNERATION

Remuneration received by key group management personnel during the years ended 31 December 2005 and 2004 is as follows:

	Thousands of euros	
	2005	2004
Short-term remuneration	1,967	1,664
Post-employment benefits	80	74
	2,047	1,738

(25) INFORMATION RELATING TO THE DIRECTORS OF THE PARENT COMPANY

25.1 Remunerations of and balances with the directors of the parent company

During 2005 the members of the board of directors have accrued remuneration of Euros 922 thousand (Euros 808 thousand in 2004) in respect of all items, including executive salaries, items specified in the Company's by-laws and allowances for attendance at meetings and conferences.

At 31 December 2005 the directors do not hold balances with the Group related to advances or loans.

At 31 December 2005 the Group has no obligations with current or former directors in respect of pension plans or life insurance schemes, nor has it extended any guarantees on their behalf.

25.2 Transactions carried out with the directors which fall outside normal activity or in conditions other than those prevailing in the market

During 2005 the members of the board of directors have not carried out operations with the Company or other group companies that fall outside normal activity or in conditions other than those prevailing in the market.

25.3 Investments and management positions held by the directors in other companies

The directors of Tubacex, S.A. do not hold any investments in companies with a statutory activity which is identical, similar or complementary to that of the parent Company. Details of management positions held are as follows.

Name	Company	Functions
Mr. Alvaro Videgain Muro	Tubacex Tubos Inoxidables, S.A.	Chairman
	Acería de Alava, S.A.	Chairman
	Tubacex Taylor Accesorios, S.A.	Chairman
	Comercial de Tubos y Accesorios Especiales, S.A.	Chairman
	Schoeller-Bleckmann Edelstahlrohr AG (SBER)	Chairman
Mr. Juan Garteizgogea Iguan	Schoeller-Bleckmann Edelstahlrohr Immobilien AG	Chairman
	Salem Tube Inc.	Chairman
	Tubacex Tubos Inoxidables, S.A.	Board Member

(26) ENVIRONMENTAL INFORMATION

Group operations are subject to legislation regarding the protection of the environment (environmental laws) and workers' safety and health (labour safety laws). The Group considers that it substantially complies with these laws and that it has procedures in place designed to encourage and ensure compliance therewith.

During the year ended 31 December 2005 the Group held environment-related investments of approximately Euros 6,659 thousand (Euros 2,590 thousand in 2004) and incurred environmental expenses of Euros 1,442 thousand (Euros 934 thousand in 2004), mainly relating to acid disposal, repairs and maintenance, and consultancy and independent professional audit services.

The Group has received no environment-related grants or income during the year.

With the exception of a provision totalling Euros 60 thousand recorded by two subsidiaries, one located in the United States and the other in Austria, to cover a water pollution risk, the quantity of which has been assessed by an independent expert, and a land contamination risk, respectively, the Group has not recorded any other provision during the year ended 31 December 2005 for possible environment-related risks, as the directors consider that no significant contingencies exist concerning possible litigation, indemnities or other items.

(27) AUDIT FEES

The firm auditing the consolidated annual accounts of the Group and other related companies as defined in the fourteenth additional provision of legislation governing the reform of the financial system have accrued fees and expenses for professional services during the years ended 31 December 2005 and 2004 as follows:

	Thousands of euros	
	31.12.05	31.12.04
Audit services	135	116
Other services	-	14

These amounts include all fees for services rendered during 2005 and 2004, irrespective of the date of invoice.

(28) FINANCIAL INFORMATION BY SEGMENTS

At 31 December 2005 the Group is comprised of the following business segments, the products and services of which are as follows:

- Seamless stainless steel pipes
- Carbon steel pipes

Inter-segment sales prices are established according to normal trade terms and conditions for non-related third parties.

Business segments involved in the area of seamless stainless steel pipes are managed at global level as the Group operates all over the world, with its main markets being Europe and the United States. The Group carries out its main European activities in Spain, Germany, France, Italy, Holland and the United Kingdom.

In the presentation of information by geographical segment, revenue and segment assets are based on the geographical location of the customers and assets, respectively.

	Thousands of euros							
	Segment Stainless steel tube		Segment Carbon steel tube		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Total revenue from external customers	402,054	323,310	28,443	24,142	-	-	430,497	347,452
Inter-segment revenue	31,718	22,583	5,700	3,332	(339)	(627)	37,079	25,288
Net financing costs	6,745	6,951	129	20	(3,051)	(1,669)	3,823	5,302
Income tax expense	6,029	3,175	1,803	1,428	-	-	7,832	4,603
Profit for the year	18,944	12,457	3,768	1,884	2,712	1,042	25,424	15,383
Segment assets	419,717	358,485	36,215	29,467	-	-	455,932	387,952
Investments accounted for using the equity method	998	923	-	-	-	-	998	923
Total assets	420,715	359,408	36,215	29,467	-	-	456,930	388,875
Segment liabilities	228,524	185,850	22,384	16,208	-	-	250,908	202,058
Cash flows from operating activities	(6,662)	(8,070)	2,667	4,384	-	-	(3,995)	(3,686)
Cash flows from investing activities	(9,200)	(7,610)	(1,747)	(2,441)	-	-	(10,947)	(10,051)
Cash flows from financing activities	24,118	13,120	482	(1,257)	-	-	24,600	11,863
Amortisation and depreciation	15,306	14,739	339	343	-	-	15,645	15,082

	Thousand of euros							
	Europe		United States		Other		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenue from external customers	283,259	236,592	85,672	65,259	61,566	45,601	430,497	347,452
Segment assets	432,168	368,134	22,968	18,060	1,794	2,681	456,930	388,875

(29) RISK POLICY AND MANAGEMENT

29.1 Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's global risk management programme is based on the uncertainty of the financial markets and aims to minimise potential adverse effects on the Group's profitability. The Group uses derivatives to hedge certain risks.

Risk management is controlled by the Group's finance department in accordance with the policies approved by the board of directors. This department identifies, evaluates and hedges financial risks in close collaboration with the Group's administrative-financial departments. The board provides written policies for global risk management and specific areas such as exchange rate risk, interest rate risk, liquidity risk, the use of derivatives and non-derivatives and investment of the liquidity surplus.

29.1.1 Market risk

- Exchange rate risk

The Group operates on an international scale and is therefore exposed to exchange rate risk on foreign currency operations, particularly the US Dollar, the Canadian Dollar and the Pound Sterling. Exchange rate risk arises on future commercial transactions, recognised assets and liabilities and net investments in foreign businesses.

In order to control the exchange rate risk on future commercial transactions and recognised assets and liabilities, group companies employ forward currency contracts negotiated with financial entities. Exchange rate risk arises when future commercial transactions and recognised assets and liabilities are stated in a currency other than the Company's functional currency. The Group's finance department is responsible for managing the net position of each foreign currency using external, forward foreign currency contracts.

For the purposes of presenting the financial information, each subsidiary company designates external, foreign exchange contracts as exchange rate hedges on certain assets, liabilities or future transactions.

29.1.2 Credit risk

The Group does not have significant concentrations of credit risk and has policies in place to ensure that sales are made to customers with a history of sufficient credit. Derivative operations and cash transactions are only carried out with financial institutions with very high credit ratings. The Group has policies to limit the amount of risk with any financial institution.

29.1.3 Liquidity risk

The Group manages liquidity risk prudently, based on maintaining sufficient cash and negotiable securities, the availability of financing through adequate credit facilities and sufficient capacity to settle market positions. The objective of the Group's finance department is to maintain flexible financing through the availability of credit facilities.

29.1.4 Cash flow and fair value interest rate risk

As the Group does not have considerable remunerated assets, the income and cash flows from the Group's operating activities are largely unaffected by variations in market interest rates.

The Group's interest rate risk arises from other non-current liabilities. Non-current liabilities issued at variable rates expose the Group to cash flow interest rate risk while loans with a fixed rate of interest expose the Group to fair value interest rate risk.

The fair values of the different captions in the consolidated balance sheet (with the exception of certain financial assets included in note 8) do not differ substantially from their carrying amount at 31 December 2005.

DETAILS OF SUBSIDIARY COMPANIES
31 DECEMBER 2005 AND 2004
(Translation from the original in Spanish)

APPENDIX I

Company	Registered address	Direct	Percentage ownership		Direct	Indirect	Activity
			2005	2004			
Acería de Alava, S.A. (a)	Amurrio (Alava, Spain)	100.00%	-	100.00%	-	Manufacture of steel	
Comercial de Tubos y Accesorios Especiales, S.A. (COTUBES) (a)	Amurrio (Alava, Spain)	100.00%	-	100.00%	-	Commercialisation of pipes	
Cotubes Canadá Inc. (b)	Ontario (Canada)	-	100.00%	-	100.00%	Commercialisation of pipes	
Red Distribuidora de Tubos y Accesorios, S.A. (R.T.A.)	Llodio (Alava, Spain)	100.00%	-	100.00%	-	Commercialisation of pipes	
Schoeller - Bleckmann Edelstahlrohr Immobilien AG (c)	Ternitz (Austria)	100.00%	-	100.00%	-	Real estate	
Schoeller - Bleckmann Edelstahlrohr AG (SBER) (c)	Ternitz (Austria)	100.00%	-	100.00%	-	Manufacture and commercialisation of pipes	
Schoeller - Bleckmann Technisches Service GmbH (SBTG)	Ternitz (Austria)	-	100.00%	-	100.00%	Technical assistance services	
Schoeller - Bleckmann Technisches Service GmbH & Co. KG (SBT)	Ternitz (Austria)	-	100.00%	-	100.00%	Technical assistance services	
Schoeller - Bleckmann AS (SB Prag) (f)	Prague (Czech Republic)	-	100.00%	-	100.00%	Commercialisation	
Schoeller - Bleckmann Edelstahlrohr Deutschland GmbH (SBERD) (f)	Düsseldorf (Germany)	-	100.00%	-	100.00%	Commercialisation	
Schoeller - Bleckmann Tube France (SBTF) (f)	Paris (France)	-	80.00%	-	80.00%	Commercialisation	
Schoeller - Bleckmann Edelstahlrohr Phönix Kft (SBERH) (f)	Budapest (Hungary)	-	100.00%	-	100.00%	Commercialisation	
Schoeller - Bleckmann Pipe & Tube Holding Inc. (SBPT)	Houston (USA)	-	100.00%	-	100.00%	Holding company	
Schoeller - Bleckmann Pipe & Tube Inc. (SB Pipe&Tube Inc.)	Houston (USA)	-	100.00%	-	100.00%	Commercialisation	
Schoeller - Bleckmann Pipe & Tube Properties Inc. (SB Pipe&Tube Pr. Inc.)	Houston (USA)	-	100.00%	-	100.00%	Real estate	
Tubacex América Holding Corporation	Albany - New York (USA)	100.00%	-	100.00%	-	Holding company	
Altx Inc. (d)	Albany - New York (USA)	-	100.00%	-	100.00%	Manufacture of tubes	
Salem Tube Inc. (d)	Greenville-Pennsylvania (USA)	-	100.00%	-	100.00%	Manufacture of tubes	
Tubacex Inc.	Houston (USA)	100.00%	-	100.00%	-	Holding company and commercialisation	
Tubacex Taylor Accesorios, S.A. (a)	Arceniega (Alava, Spain)	100.00%	-	100.00%	-	Manufacture of accessories	
Tubacex Tubos Inoxidables, S.A. (a)	Llodio (Alava, Spain)	100.00%	-	100.00%	-	Manufacture of pipes	
Tubos Mecánicos, S.A. (a)	Abrera (Barcelona, Spain)	100.00%	-	100.00%	-	Commercialisation of pipes	
Tubos Mecánicos Norte, S.A. (a)	Llodio (Alava, Spain)	-	100.00%	-	100.00%	Commercialisation of pipes	
Métaux Inox Services, S.A.S. (e)	Soissons (France)	100.00%	-	-	-	Commercialisation of pipes	

- (a) Audited by KPMG Auditores, S.L.
(b) Audited by Duffy, Allain & Rutten, LLP
(c) Audited by Ernst & Young.
(d) Audited by Grossman & Yanak & Ford.
(e) Audited by Mazars
(f) Dependant companies valued by the equity method

This Appendix forms an integral part of note 1 to the consolidated annual accounts, in conjunction with which it should be read.