

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

Auditor's Report Consolidated  
Financial Statements for the year  
ended 31 December 2017, prepared in  
accordance with International Financial  
Reporting Standards Consolidated  
Directors' Report

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

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

## **INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS**

To the Shareholders of Tubacex, S.A.,

### **Report on the Consolidated Financial Statements**

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#### **Opinion**

We have audited the consolidated financial statements of Tubacex, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

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

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#### **Basis for Opinion**

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

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

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

## Key Audit Matters

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

### Goodwill of Sber

#### Description

As described in Note 3-a to the accompanying consolidated financial statements, under EU-IFRSs, the Group is required, every year, to test for impairment the goodwill of the Austria cash-generating unit recognised in the consolidated financial statements, which amounted to EUR 18 million at 31 December 2016 and which was written down by EUR 16 million at 31 December 2017. This impairment test was significant for our audit due to the materiality of the goodwill balance in the consolidated balance sheet to the consolidated financial statements and to the industrial and commercial transformation that the Tubacex Group has been implementing at this cash-generating unit in recent years.

The valuation process performed by management in this connection requires the use of significant judgements and estimates, both when determining future cash flow discounting as the valuation method and when considering the key assumptions established for the method in question (use of correcting factors to adapt the comparable data considered, use of discount rates, etc.).

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

#### Procedures applied in the audit

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

In this connection, we analysed the reasonableness of the main assumptions used (basically those relating to cash flow forecasts, the terminal value and discount rates) and the consistency thereof with the actual data relating to the performance of the component, and performed a sensitivity analysis on the key assumptions identified.

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

Lastly, we evaluated whether the disclosures included in Note 7 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

## IBF SpA brand

### Description

As explained in Note 3-a to the accompanying consolidated financial statements, under EU-IFRSs, the Group is required to annually test for impairment the brand it has recognised in the consolidated financial statements for EUR 11 million, which arose from the acquisition of IBF SpA in 2015, as it is an intangible asset with an indefinite useful life.

The measurement of the Italy brand requires the use of significant judgements and estimates by management, both when determining the sales-based royalty method as the valuation method and when considering the key assumptions established for the method in question (relating to future sales forecasts, the royalty rate, the terminal value, the discount rates plus associated risk premium and the growth rate).

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

### Procedures applied in the audit

Our audit procedures included, among others, substantive procedures to assess the reasonableness of the estimates made by Group management. In this connection, we obtained and analysed the valuation prepared by Group management, and verified the clerical accuracy thereof and the appropriateness of the valuation method used. For this purpose, we analysed whether the future sales forecasts considered in the analysis carried out were consistent with the budgets approved by the Board of Directors and with external data and historical information on the component.

In this connection, we analysed the reasonableness of the main assumptions used (basically those relating to the future sales forecasts, the royalty rate, the terminal value, the discount rates and the growth rate) and the consistency thereof with the actual data relating to the performance of the component, and performed a sensitivity analysis on the key assumptions identified. We involved our in-house valuation experts in order to evaluate, mainly, the methodology employed by the Group in the analysis conducted, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows.

Lastly, we evaluated whether the disclosures included in Note 7 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

## Recoverability of deferred tax assets

### Description

The consolidated balance sheet as at 31 December 2017 includes EUR 70 million of deferred tax assets, of which EUR 42 million relate to tax assets (mainly tax loss and tax credit carryforwards) that are recoverable in the context of the Spanish tax group headed by the Parent, EUR 15 million relate to tax assets that are recoverable in Austria and EUR 4 million relate to tax assets that are recoverable in Italy.

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

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

### Procedures applied in the audit

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

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

## Recognition of revenue by reference to stage of completion

### Description

In 2017 a specific contract was entered into for the delivery of 600 km of pipes over three years. The sales related to this contract represent 12% of the Group's total consolidated sales at 31 December 2017. As indicated in Note 3-p to the consolidated financial statements, the Group applies IAS 11 for the recognition of the revenue associated with this contract by reference to the stage of completion, on the basis of the actual costs incurred as a percentage of total budgeted costs.

This revenue recognition method was a key matter in our audit, as it affects a significant amount of total revenue and requires Group management to make significant estimates relating mainly to the expected outcome of the contract, the amount of costs to be incurred at the end of the work, the measurement of the work completed in the period and the accounting for variations in the initial contract, all of which impact the revenue recognised in the year. These judgements and estimates are made by the persons in charge of performing the work or services contracts, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied.

### Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the process of recognising revenue by reference to stage of completion, and tests to verify that the aforementioned controls operate effectively, involving our technology and systems specialists for those controls related to information systems.

We obtained and analysed the contract entered into, obtaining an adequate understanding of its clauses, and analysed the proper application of IAS 11. We also performed an analysis of the budgeting of the total contract costs, i.e. of the costs incurred at 31 December 2017 and the variances with respect to the initially budgeted costs. We also performed a sampling of inventories at year end in order to analyse the stage of completion of the contract, verifying early collections against supporting documentation and analysing whether the revenue is duly recognised on the basis of the actual costs incurred as a percentage of the total budgeted costs, taking into account the deferred tax impact.

Notes 13 and 14 to the accompanying consolidated financial statements contain the disclosures and information relating to the Group's sales revenue recognised by reference to stage of completion.

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## **Other Information: Consolidated Directors' Report**

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

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

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

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

Based on the work performed, as described above, we have checked that the non-financial information described in section a) above is presented in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix 1 to this auditor's report. This description, which is on pages 9 and 10, forms part of our auditor's report.

### **Report on Other Legal and Regulatory Requirements**

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#### **Additional Report to the Parent's Audit Committee**

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2018.

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#### **Engagement Period**

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



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

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



Pablo Múgica  
Registered in ROAC under no. 18694

27 February 2018

## Appendix 1 to our auditor's report

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

## TUBACEX, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 AND 2016

(Thousands of euros)

ASSETS	Notes	31/12/17	31/12/16 (*)	EQUITY AND LIABILITIES	Notes	31/12/17	31/12/16 (*)
<b>NON-CURRENT ASSETS</b>				<b>EQUITY</b>			
Intangible assets	Note 7	51,906	71,633	Shareholders' equity-	Note 16		
Goodwill		12,108	28,383	Registered share capital		59,840	59,840
Other intangible assets		39,798	43,250	Share premium		17,108	17,108
Property, plant and equipment	Note 8	272,435	267,621	Revaluation reserve		3,763	3,763
Investments accounted for using the equity method	Note 10	-	637	Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method			
Derivative financial instruments	Note 12	346	138	Treasury shares		203,667	203,160
Non-current financial assets	Note 11	6,638	7,371	Profit (Loss) for the year attributable to the Parent		(7,850)	(7,850)
Deferred tax assets	Note 22	70,520	54,882	Other equity instruments	Note 16-f	(19,710)	507
<b>Total non-current assets</b>		<b>401,845</b>	<b>402,282</b>			<b>257,608</b>	<b>276,807</b>
				<b>Valuation adjustments</b>			
				Translation differences		3,653	11,653
				Hedges		(4,029)	(1,815)
				<b>Equity attributable to the Parent</b>	Note 16-g	<b>257,232</b>	<b>286,645</b>
				<b>Non-controlling interests</b>		<b>24,583</b>	<b>26,915</b>
				<b>Total equity</b>		<b>281,815</b>	<b>313,560</b>
				<b>NON-CURRENT LIABILITIES</b>			
				Long-term provisions	Note 17	3,108	3,125
				Deferred income		1,416	1,497
				<b>Non-current financial liabilities</b>		<b>81,661</b>	<b>165,580</b>
				Bank borrowings	Note 18	79,717	164,650
				Derivative financial instruments	Note 12	1,944	930
				Employee benefit obligations	Note 21	8,663	11,693
				Deferred tax liabilities	Note 22	16,689	16,574
				<b>Other non-current financial liabilities</b>	Note 19	<b>8,131</b>	<b>9,145</b>
				<b>Total non-current liabilities</b>		<b>119,668</b>	<b>207,614</b>
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Inventories	Note 13	248,576	221,213	Short-term provisions	Note 17	5,581	4,251
Trade and other receivables	Note 14	95,603	79,640	Current financial liabilities		<b>333,829</b>	<b>192,231</b>
Trade receivables for sales and services		75,466	62,808	Debt instruments and other marketable securities	Note 18	95,636	48,610
Other receivables		18,863	14,658	Bank borrowings	Note 18	233,101	140,998
Current tax assets		1,274	2,174	Derivative financial instruments	Note 12	5,092	2,623
Derivative financial instruments	Note 12	274	541	Trade and other payables	Note 20	165,283	134,145
Current financial assets	Note 11	47,673	105,999	Payable to suppliers		131,015	100,807
Other current assets		4,938	766	Other payables		34,268	32,654
Cash and cash equivalents	Note 15	107,267	43,360	Current tax liabilities	Note 22	-	684
<b>Total current assets</b>		<b>504,331</b>	<b>449,519</b>	<b>Total current liabilities</b>		<b>504,693</b>	<b>330,627</b>
<b>TOTAL ASSETS</b>		<b>906,176</b>	<b>851,801</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>906,176</b>	<b>851,801</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of financial position as at 31 December 2017.

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

## TUBACEX, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR 2017 AND 2016

(Thousands of euros)

	Notes	2017	2016 (*)
<b>Continuing operations:</b>			
Revenue	<b>Note 6</b>	490.361	494.029
+/- Changes in inventories of finished goods and work in progress	<b>Note 13</b>	20.383	9.262
In-house work on non-current assets	<b>Note 3-b</b>	4.211	4.784
Procurements	<b>Note 13</b>	(274.719)	(268.025)
Other operating income	<b>Notes 11 &amp; 24</b>	6.505	13.132
Staff costs	<b>Note 25</b>	(121.444)	(121.543)
Other operating expenses	<b>Note 24</b>	(99.357)	(96.692)
Depreciation and amortisation charge and impairment losses on non-current assets	<b>Notes 7 &amp; 8</b>	(54.197)	(32.425)
<b>Profit (Loss) from operations</b>		<b>(28.257)</b>	<b>2.522</b>
Finance income	<b>Note 11</b>	2.185	1.038
Finance costs	<b>Notes 11 &amp; 18</b>	(11.233)	(8.750)
Exchange differences		(1.786)	(393)
<b>Financial loss</b>		<b>(10.834)</b>	<b>(8.105)</b>
Result of companies accounted for using the equity method	<b>Note 10</b>	8	29
<b>Loss before tax</b>		<b>(39.083)</b>	<b>(5.554)</b>
Income tax	<b>Note 22</b>	14.975	3.991
<b>Loss for the year from continuing operations</b>		<b>(24.108)</b>	<b>(1.563)</b>
Profit/Loss from discontinued operations		-	-
<b>Consolidated loss for the year</b>		<b>(24.108)</b>	<b>(1.563)</b>
Profit (Loss) attributable to:			
The Parent		(19.710)	507
Loss attributable to non-controlling interests		(4.398)	(2.070)
<b>Earnings per share (in euros)</b>			
- Basic	<b>Note 23</b>	(0,1518)	0,0039
- Diluted	<b>Note 23</b>	(0,1518)	0,0039

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of profit or loss for 2017.

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

## TUBACEX, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousands of euros)

	Notes	2017	2016 (*)
<b>Consolidated loss for the year</b>		<b>(24.108)</b>	<b>(1.563)</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
<b>Income and expense recognised directly in equity</b>			
Measurement of cash flow hedging instruments	Notes 12 & 16	(2.441)	(926)
Tax effect	Notes 12, 16 & 22	683	259
Translation differences	Note 16-g	(8.000)	1.674
<b>Transfers to profit or loss</b>			
Measurement of cash flow hedging instruments	Notes 12 & 16	(634)	(503)
Tax effect	Notes 12, 16 & 22	178	141
<b>Other comprehensive income</b>		<b>(10.214)</b>	<b>645</b>
<b>Total comprehensive income for the year</b>		<b>(34.322)</b>	<b>(918)</b>
Profit (Loss) attributable to:			
The Parent		(29.924)	1.152
Loss attributable to non-controlling interests		(4.398)	(2.070)

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of comprehensive income for 2017.

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

## TUBACEX, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR 2017 AND 2016 (Thousands of euros)

	Equity attributable to the Parent											Total equity
	Shareholders' equity										Non-controlling interests	
	Registered share capital	Share premium	Revaluation reserve	Other reserves	Treasury shares	Net profit (loss) for the year	(Interim dividend)	Other equity instruments	Translation differences	Cash flow hedges		
<b>Balance at 31 December 2015 (*)</b>	59,840	17,108	3,763	198,112	(7,850)	8,413	-	-	9,979	(786)	26,910	317,489
<b>Total comprehensive income</b>	-	-	-	-	-	507	-	-	1,674	(1,029)	(2,070)	(918)
<b>Other changes in equity</b>	-	-	-	5,048	-	(3,365)	-	-	-	-	-	(3,365)
Distribution of dividends (Notes 4 and 16-h)	-	-	-	-	-	(5,048)	-	-	-	-	-	-
Inclusion of Tubacex Upstream Technologies S.A. in the scope of consolidation (Note 2-f)	-	-	-	-	-	-	-	-	-	-	80	80
Other changes	-	-	-	-	-	-	-	279	-	-	(5)	(5)
Long-term incentive plan (Notes 3-k, 3-l and 16)	-	-	-	-	-	-	-	-	-	-	-	279
<b>Balance at 31 December 2016 (*)</b>	59,840	17,108	3,763	203,160	(7,850)	507	-	279	11,653	(1,815)	26,915	313,560
<b>Total comprehensive income</b>	-	-	-	-	-	(19,710)	-	-	(8,000)	(2,214)	(4,398)	(34,322)
<b>Other changes in equity</b>	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends (Notes 4 and 16-h)	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	507	-	(507)	-	-	-	-	-	-
Inclusion of Tubacex Awaji Thailand in the scope of consolidation (Note 2-f)	-	-	-	-	-	-	-	-	-	-	2,066	2,066
Long-term incentive plan (Notes 3-k, 3-l and 16)	-	-	-	-	-	-	-	511	-	-	-	511
<b>Balance at 31 December 2017</b>	59,840	17,108	3,763	203,667	(7,850)	(19,710)	-	790	3,653	(4,029)	24,583	281,815

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of changes in equity for 2017.

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

## TUBACEX, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR 2017 AND 2016

(Thousands of euros)

	Notes	2017	2016 (*)
<b>Cash flows from operating activities</b>			
Loss for the year before tax		(39.083)	(5.554)
Adjustments for:			
Depreciation and amortisation charge and impairment losses on non-current assets	<b>Notes 7 &amp; 8</b>	54.197	32.425
Exchange (gains)/losses		1.786	393
Changes in write-downs and provisions	<b>Notes 13.14, 17 &amp; 21</b>	3.743	254
Finance income		(2.185)	(1.038)
Finance costs		11.233	8.750
Share of results of companies accounted for using the equity method	<b>Note 10</b>	(8)	(29)
Changes in equity instruments – share-based payment transactions	<b>Note 16</b>	511	279
In-house work on non-current assets	<b>Note 3-b</b>	(4.211)	(4.784)
Gains or losses on disposals of other items of property plant and equipment and intangible assets	<b>Notes 7, 8 &amp; 24</b>	1.003	(779)
Recognition of government grants in profit or loss	<b>Note 24</b>	(81)	(301)
		<b>26.905</b>	<b>29.616</b>
Changes in working capital:			
Inventories	<b>Note 13</b>	(37.774)	6.715
Trade and other receivables	<b>Note 14</b>	(2.200)	15.631
Other current assets		(3.905)	189
Trade and other payables	<b>Note 20</b>	31.731	11.300
Other current liabilities	<b>Notes 17 &amp; 21</b>	(1.705)	(1.587)
Other non-current assets and liabilities		(743)	(2.894)
		<b>(14.596)</b>	<b>29.354</b>
Other cash flows from operating activities:			
Interest paid		(10.104)	(8.750)
Income tax recovered/(paid)	<b>Note 22</b>	-	(282)
<b>Net cash flows from operating activities (I)</b>		<b>2.205</b>	<b>49.938</b>
<b>Cash flows from investing activities:</b>			
Proceeds from disposal of non-current assets	<b>Notes 7 &amp; 8</b>	-	4.230
Proceeds from disposal of financial assets	<b>Note 11</b>	41.021	3.275
Interest received		2.185	102
Investments accounted for using the equity method	<b>Note 10</b>	(8)	-
Acquisition of property, plant and equipment	<b>Note 8</b>	(28.994)	(33.369)
Acquisition of intangible assets	<b>Note 7</b>	(6.826)	(3.543)
Acquisition of other financial assets	<b>Notes 11 &amp; 12</b>	-	(5.281)
Investments in business units	<b>Note 2-f</b>	249	-
<b>Net cash flows from investing activities (II)</b>		<b>7.627</b>	<b>(34.586)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issue of bank borrowings	<b>Note 18</b>	148.653	141.159
Proceeds from issue of other borrowings	<b>Note 18</b>	95.636	48.610
Repayment of bank borrowings	<b>Note 18</b>	(140.998)	(173.770)
Repayment of other borrowings	<b>Note 18</b>	(48.610)	(24.951)
Repayment or settlement of other financial liabilities	<b>Notes 12 &amp; 19</b>	(606)	(3.537)
Dividends paid	<b>Note 16-h</b>	-	(3.365)
<b>Net cash flows from financing activities (III)</b>		<b>54.075</b>	<b>(15.854)</b>
<b>Effect of foreign exchange rate changes (IV)</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents (I+II+III+IV)</b>		<b>63.907</b>	<b>(502)</b>
Cash and cash equivalents at 1 January	<b>Note 15</b>	43.360	43.862
<b>Cash and cash equivalents at 31 December</b>	<b>Note 15</b>	<b>107.267</b>	<b>43.360</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of cash flows for 2017.



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

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

Notes to the Consolidated Financial Statements  
for the year ended 31 December 2017

### **1. Description and activities of the Parent**

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

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

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

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

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

### **2. Basis of presentation of the consolidated financial statements**

#### ***a) Basis of presentation***

The consolidated financial statements for 2017 of the TUBACEX Group were formally prepared by the directors:

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

- Taking into account all the mandatory accounting principles and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the TUBACEX Group's consolidated equity and consolidated financial position at 31 December 2017 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The TUBACEX Group's consolidated financial statements for 2016 were approved by the shareholders at the Annual General Meeting of TUBACEX on 24 May 2017. The 2017 consolidated financial statements of the Group and the 2017 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Board of Directors of TUBACEX considers that the aforementioned financial statements will be approved without any changes.

***b) Adoption of International Financial Reporting Standards (IFRSs)***

The TUBACEX Group's consolidated financial statements for the year ended 31 December 2017 were prepared in accordance with IFRSs, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, taking into account all the mandatory accounting principles and rules and measurement bases with a material effect, as well as the alternative treatments permitted by the relevant standards in this connection.

In 2017 the following mandatory interpretations and standards already adopted by the European Union came into force, which, where applicable, were used by the Group in preparing these consolidated financial statements:

**(1) New standards, amendments and interpretations mandatorily applicable in 2017**

<b>Approved for use in the European Union</b>		<b>Obligatory application in annual reporting periods beginning on or after:</b>
Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016)	Clarification of the principles established for recognition of deferred tax assets for unrealised losses.	1 January 2017
Amendments to IAS 7, Disclosure Initiative (issued in January 2016)	Various clarifications in relation to disclosures (financial transactions, liquidity, etc.).	1 January 2017

The Group has applied the aforementioned standards and interpretations since they became effective on 1 January 2017, which did not have a significant impact on its accounting policies. In this connection, set forth below is a reconciliation of the carrying amount of the liabilities arising from financing activities, disclosing separately the changes that generate cash flows from those that do not.

	01/01/17	Cash flows	No impact on cash flows			31/12/17
			Change in fair value	Reclassifications	Other (*)	
Non-current bank borrowings	164,650	-	-	(84,933)	-	79,717
Current bank borrowings	189,608	54,525	-	84,933	(329)	328,737
<b>Total liabilities arising from financing activities</b>	<b>354,258</b>	<b>54,525</b>	<b>-</b>	<b>-</b>	<b>(329)</b>	<b>408,454</b>

(\*) Corresponding to the change in accrued finance costs payable at the end of 2017 and 2016 (see Note 18).

**(2) New standards, amendments and interpretations that will be mandatorily applicable in annual reporting periods subsequent to the calendar year that began on 1 January 2017.**

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

<b>Approved for use in the European Union</b>		<b>Obligatory application in annual reporting periods beginning on or after:</b>
IFRS 15, Revenue from Contracts with Customers (issued in May 2014)	New revenue recognition standard (supersedes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018
Amendments to IFRS 4, Insurance Contracts (issued in September 2016)	Provide entities within the scope of IFRS 4 with the option of applying IFRS 9 ("overlay approach") or the temporary exemption therefrom.	1 January 2018
Improvements to IFRSs, 2014-2016 cycle	Minor amendments to a series of standards.	1 January 2018
Clarifications to IFRS 15 (issued in April 2016)	Focus on identifying performance obligations, principal versus agent considerations, licensing and determining whether a license is satisfied at a point in time or over time, as well as certain clarifications to the transition requirements.	1 January 2018
IFRS 16, Leases (issued in January 2016)	It introduces a single lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with an impact similar to that of current finance leases (supersedes IAS 17 and the associated interpretations).	1 January 2019

<b>Not yet approved for use in the European Union</b>		<b>Obligatory application in annual reporting periods beginning on or after:</b>
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	Various amendments to the standard on share-based payment transactions in relation to vesting conditions on cash-settled share-based payment transactions, amendments to the terms and conditions of plans, net settlements, etc.	1 January 2018
Amendments to IAS 40, Transfers of Investment Property (issued in December 2016)	Guide to investment property transactions when there is a change in use.	1 January 2018
IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued in December 2016)	Establishes the date of the transaction for the purpose of determining the exchange rate to use in transactions with advance consideration in a foreign currency.	1 January 2018
IFRIC 23, Uncertainty Over Income Tax Treatments (issued in June 2017)	Clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over whether the relevant taxation authority will accept a tax treatment used by an entity.	1 January 2019
Amendments to IFRS 9, Prepayment Features with Negative Compensation (issued in October 2017)	The amendments permit the measurement at amortised cost of certain financial instruments with prepayment features that allow the payment of an amount that is lower than the unpaid amounts of principal and interest.	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (issued in October 2017)	The amendments clarify that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not used.	1 January 2019
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	Under the proposed amendments, when a change is made to a defined benefit plan (due to amendment, curtailment or settlement), the entity will use current assumptions to remeasure the cost of the services and the net interest for the period following the change to the plan.	1 January 2019
Improvements to IFRSs, 2015-2017 cycle (issued in December 2017)	Minor amendments to a series of standards (IFRS 3, IAS 12 and IAS 23)	1 January 2019
IFRS 17, Insurance Contracts (issued in May 2017)	Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Supersedes IFRS 4.	1 January 2021
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification in relation to the gain or loss resulting from such transactions involving a business or assets.	No set date

The Group has performed an assessment of the impact that the future application of the standards that come into force in 2018 and subsequent years might have, particularly IFRS 15 and IFRS 9, on the consolidated financial statements once they become effective.

#### *IFRS 15, Revenue from Contracts with Customers*

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

The Group has assessed the application of application of IFRS 15 and does not expect any impact to arise therefrom and, therefore, does not consider it necessary to apply it retrospectively, restating the comparative information.

Due to their characteristics, the sales transactions in the business in which the Group operates, with the exception of a significant contract signed in 2017 (see Notes 3-p., 3-v., 13 and 14), do not follow a normal sales pattern for construction contracts, but correspond to contracts for the delivery of assets at a point in time rather than over several years. Following a case-by-case analysis, it was concluded that effective control over the risks and rewards of ownership of the goods in these contracts is retained until the goods are transferred and, accordingly, the amount of revenue can be measured reliably and it is considered likely to be received and the transaction costs incurred or to be incurred can be measured reliably. Sales warranties cannot be purchased separately. Consequently, the Group will continue to recognise warranties and insurance contracts in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No supplementary warranties are provided in addition to those required by law which, under IFRS 15, are considered to be service warranties and should, therefore, be recognised as a separate performance obligation to which the Group must allocate a portion of the asset's selling price.

With respect to the contract signed in 2017, which based on its nature is considered to be a construction contract, the directors have analysed the differences existing between the application of IAS 11 and IFRS 15 and concluded that there is no accounting impact.

Except where it necessary to provide more extensive disclosures on the its revenue transactions, no other significant impacts on the Group's financial situation or profit or loss are expected as a result of applying this standard.

#### *IFRS 9, Financial Instruments*

IFRS 9 will supersede IAS 39 for reporting periods beginning on or after 1 January 2018. There are very significant differences with respect to the current standard for the recognition and measurement of financial instruments. However, the only difference applicable to the Group is that in relation to impairment losses on financial assets, since IFRS 9 requires the application of a model based on the expected credit loss, as opposed to the model in IAS 39 which is based on incurred credit losses. Under this model, the Group will update the expected loss and the changes therein at each reporting date to reflect the changes in credit risk since initial recognition; therefore, it is no longer necessary for an impairment event to have occurred before credit losses are recognised. In addition, future changes in the contractual cash flows of a financial liability leading to the derecognition of the financial liability must be recognised as a change in estimate of the contractual cash flows of the liability, maintaining the original effective interest rate and adjusting its carrying amount to enable the recognition of a balancing entry in profit or loss.

The Group measures its assets at amortised cost since the objective of the business model is to hold assets in order to collect the contractual cash flows. The Group intends to apply IFRS 9 retrospectively, without restating the comparative information. In this connection, in accordance with the new impairment model based on expected credit loss over the following twelve months, the Group considers that the financial assets measured at amortised cost will be subject to impairment, taking into consideration the facts and circumstances that existed at that date as indicated below in accordance with a preliminary assessment, since it is still completing its expected credit loss model, and this would result in a reduction in the amount of reserves at 1 January 2018 (in thousands of euros) of:

	<b>Balance at 31/12/17</b>	<b>Estimated credit loss at 12 months (%) (*)</b>	<b>Estimated credit loss at 12 months at 31/12/17</b>
Trade receivables (Note 14)	93,100	0.02% - 3.77%	1,764
Amounts to be billed for work performed (Note 14)	2,503	3.77%	94
Current financial assets (Note 11)	32,069	0.02%-0.06%	13
Trade and other receivables (Note 14)	15,604	3.77%	588
Cash	107,267	0.02%-0.06%	43
<b>TOTAL</b>			<b>2,502</b>

(\*) The estimate was made taking into consideration the credit rating of the counterparties, issued by agencies of recognised prestige, considering the credit rating of the customers and financial institutions the Group works with as ranging from B to AAA. In the estimation of the expected loss on the amounts to be billed for work performed, since an individual credit rating is not available for the customer, the Group used the rating of the country in which it carries on its activities as a valid reference and opted to estimate an expected loss of 3.7% of the total amount to be billed.

#### *IFRS 16, Leases*

IFRS 16 will come into force on 1 January 2019 and will supersede IAS 17 and the current associated interpretations. The main development of IFRS 16 is that it introduces a single lessee accounting model in which all leases will be recognised in the statement of financial position with an impact similar to that of the existing finance leases (depreciation of the right-of-use asset and a finance cost for the amortised cost of the liability will be recognised). The Group is assessing the total effect that application of IFRS 16 will have on the consolidated financial statements. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments under these leases; however, certain information is disclosed, such as operating lease obligations, in Note 9 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16 and, therefore, the Group will recognise a right-of-use asset and the related liability unless they qualify as low-value or short-term leases under IFRS 16. It is considered that the new requirements of IFRS 16 will not have a significant impact on the Group's consolidated financial statements on the basis of the leases in force at 31 December 2017 (see Note 9 in relation to the minimum lease payments contracted by the Group for the leases currently in force). It is not possible to provide a reasonable estimate of the financial effect until this analysis has been completed. Management does not intend to apply this standard early and, at the date of this publication, no decision has yet been made as to the option that will be applied at the date of transition.

**c) Functional currency**

These consolidated financial statements are presented in euros, since this is the currency of the main economic area in which the Group operates. Foreign operations are accounted for in accordance with the policies established in Note 2-f.

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with a functional currency other than the euro at 31 December 2017 and 2016, including intra-Group balances eliminated from the accompanying consolidated statement of financial position, is as follows:

Currency	Equivalent value in thousands of euros			
	31/12/17		31/12/16	
	Assets	Liabilities	Assets	Liabilities
Brazilian real	931	1,446	380	334
Thai baht	6,763	2,224	-	-
US dollar	56,664	11,165	59,583	8,040
Indian rupee	49,006	11,113	43,305	4,297
<b>Total</b>	<b>113,364</b>	<b>25,948</b>	<b>103,268</b>	<b>12,671</b>

At 31 December 2017, the Parent had a balance payable of EUR 3.4 million in foreign currencies.

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

Nature of the balances	Equivalent value in thousands of euros			
	31/12/17		31/12/16	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	10,896	-	10,558	-
Property, plant and equipment	41,145	-	40,272	-
Non-current financial assets and deferred tax	1,942	-	2,782	-
Inventories	25,993	-	20,083	-
Trade and other receivables	15,997	-	10,712	-
Other current financial assets	503	-	912	-
Cash and cash equivalents	16,888	-	17,949	-
Non-current liabilities	-	8,436	-	5,626
Current liabilities	-	17,512	-	7,045
<b>Total</b>	<b>113,364</b>	<b>25,948</b>	<b>103,268</b>	<b>12,671</b>



**d) Responsibility for the information and use of significant estimates**

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

In the consolidated financial statements of the TUBACEX Group for 2017 estimates were occasionally made. The most significant estimates relate to:

- The assumptions used to measure goodwill and intangible assets with indefinite useful lives (see Notes 2-f and 7).
- The assumptions used to evaluate the recoverability of deferred tax assets (see Note 22).
- The estimate of the total costs associated with the construction contract awarded in 2017 and the costs incurred during the year to determine the stage of completion at 31 December 2017 (see Notes 13 and 14).
- The useful life of the intangible assets and property, plant and equipment (see Notes 7 and 8).
- The evaluation of possible impairment losses on certain assets (see Notes 7, 8, 10, 11 and 14).
- The analysis of net realisable values, the assessment of write-downs due to the slow movement of inventories and the evaluation of possible losses on the committed order backlog (existence of onerous contracts) (see Note 13).
- The amount of provisions for contingencies and charges and the probability of occurrence and amount of any liabilities of undetermined amount or contingent liabilities (see Note 17).
- Achievement of covenants in relation to certain financing received (see Note 18).
- The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 21).
- The fair value of certain equity instruments (see Notes 3-l and 16-f), and fulfilment of the conditions for them to be derecognised (see Note 3-e).

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

At 31 December 2017, the directors of the TUBACEX Group considered that the Group did not have any material contingent liabilities other than those disclosed herein.

**e) Comparative information**

As required by IAS 1, the information relating to 2017 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with information relating to 2016 and, accordingly, it does not constitute the TUBACEX Group's statutory consolidated financial statements for 2017.

With a view to performing an appropriate comparison between the consolidated financial statements for 2017 and 2016, the changes in the scope of consolidation described in Note 2-f should be taken into account.

**f) Basis of consolidation**

*Scope of consolidation*

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

The accompanying consolidated financial statements for the year ended 31 December 2017 were prepared from the separate accounting records at that date of Tubacex, S.A. (the Parent -see Note 1-) and of the subsidiaries listed in the Appendix to these notes to the consolidated financial statements. All of the subsidiaries have the same reporting period except for the Indian companies Tubacex Prakash India Pvt Ltd and Tubacex India Pvt Ltd, whose reporting period ends on 31 March. The reporting period of these companies was adjusted for consolidation purposes to end on 31 December.

*Changes in the scope of consolidation*

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

**Tubacex Awaji Thailand investment**

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

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

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

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

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

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

The most significant changes in the scope of consolidation in 2016 were as follows:

#### **Tubacex Upstream Technologies, S.A.**

Tubacex Upstream Technologies, S.A. was incorporated on 14 January 2016 through a strategic alliance with the engineering firm Energy Frontier Solutions, S.L. Its company object is the manufacture and marketing of special steel tubes (particularly for the upstream oil and gas industry), or metal tubes in general, as well as any other accessories and products specific to the metal industry. Its object also includes the preparation and execution of plans and projects for the creation, promotion, development and investment and ownership of equity interests, in general, in relation to industrial, commercial and services companies or businesses.

It has share capital of EUR 1 million, divided into one million shares of EUR 1 each. On 13 January 2016, the Tubacex Group paid EUR 920 thousand to acquire 920,000 shares granting Tubacex, S.A. the right to 80% of the economic benefits, as stipulated in the shareholders agreement.

The company's registered office is in Leioa (Vizcaya). At 31 December 2017, this company was fully consolidated, and the net assets contributed were not material to the consolidated financial statements taken as a whole.

## **Tubacex Services Solutions, S.L.U. - Creation of new companies and corporate restructuring within the Group**

### *Creation of new companies*

The Tubacex Group created the following companies in 2016:

- Tubacex Services Solutions Austria GmbH
- Tubacex Services Solutions Do Brasil Participacoes Ltda
- Tubacex Advance Solutions, S.L.U.
- Tubacex Services Solutions Holding, S.L.U.

At 31 December 2017, these subsidiaries were fully consolidated, and the net assets contributed were not material to the consolidated financial statements taken as a whole.

### *Corporate restructuring within the Group*

A restructuring took place within the Group, with no impact on these consolidated financial statements, in order for the following Group retailers to be included in the new commercial vehicle focusing on the distribution business, under the new company Tubacex Services Solutions Holding, S.L.:

- Comercial de Accesorios y Tubos Especiales, S.A.U. (Cotubes) In 2016 this company changed its name to Tubacex Services Solutions, S.L.U.
- Tubos Mecánicos, S.A.U. and its subsidiary Tubos Mecánicos Norte, S.A.U.
- Tubacex America, Inc.
- Metaux Inox Services, S.A.S.
- Tubacex India Pvt Ltd

The contribution of these companies by Tubacex, S.A. to Tubacex Services Solutions Holding, S.L.U. (wholly-owned by Tubacex S.A.) was made in full through subscription to the capital increase carried out by Tubacex Services Solutions Holding, S.L.U. in December 2016 through the non-monetary contribution of the shares. This reorganisation did not have any impact on the accompanying consolidated financial statements.

This restructuring process is part of the operational development of the strategy to become a global tubular solutions provider as envisaged in TUBACEX's 2013-2017 Strategic Plan, enabling the Group to offer a wide range of products and strengthen its presence in all geographical markets.

### *Consolidation methods*

#### *a) Subsidiaries*

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

Control exists where the Group has:

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

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

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

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

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

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

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

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

#### *b) Associates and joint arrangements*

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

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

The results and assets and liabilities of associates and joint ventures are accounted for in these consolidated financial statements using the equity method. Under the equity method, an investment in an associate or joint venture is initially recognised at cost and the carrying amount is increased or reduced to recognise the investor's share of the profit or loss of the investee after the acquisition date. If the Group's share of losses of an associate or a joint venture equals or exceeds its interest therein, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

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

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

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

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

When a Group company enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party. At 31 December 2017 and 2016, the Tubacex Group did not have any joint operations or ventures of this nature.

*Business combinations*

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

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

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

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

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

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

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

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

#### *Translation of financial statements denominated in foreign currency*

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

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

#### **g) Correction of errors**

In preparing the accompanying consolidated financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2016.

#### ***h) Going concern principle of accounting***

At 31 December 2017, the Group had a working capital deficiency of EUR 0.3 million and a loss of EUR 19,710 thousand mainly as a result of valuation adjustments in 2017 that did not have an impact on cash (see Notes 7 and 11). The directors prepared these consolidated financial statements under the going concern basis of accounting since they consider that there are factors that eliminate the doubt as to whether the Group can continue to operate as a going concern such as its good financial position with "Cash and Cash Equivalents" of EUR 107,267 million, "Current Financial Assets" amounting to EUR 47,673 thousand and undrawn credit facilities amounting to EUR 48,353 thousand (see Note 18). In addition, "Current Liabilities" in the accompanying consolidated statement of financial position includes EUR 65 million relating to a loan from the European Investment Bank (EIB), with a maximum maturity of ten years, which, irrespective of its accounting classification, is not expected to be claimable at short term. The reason for the loan's classification as current is the non-compliance with a clause which, under accounting legislation, requires the loan to be recognised at short term. At the date of authorisation for issue of these consolidated financial statements, the European Investment Bank had granted a waiver with new financial conditions compared to those initially negotiated that the directors expect to fulfil in the short- and medium-term and that evidence that the borrowings of EUR 65 million recognised as a current liability are not claimable (see Notes 18 and 31).

There are also other additional factors such as the Group's positive outlook with a significant backlog at the various CGUs, an equity position of EUR 281,815 thousand and a market capitalisation of EUR 445 million at 31 December 2017.

### **3. Accounting policies**

The principal accounting policies used by the TUBACEX Group in preparing its consolidated financial statements as at 31 December 2017 and 2016 were as follows:

#### ***a) Intangible assets-***

##### *Goodwill-*

Goodwill arising on consolidation is calculated as explained in Note 2-f.

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3-c and, where appropriate, are written down.

An impairment loss recognised for goodwill must not be reversed in a subsequent period.

In 2017 a significant valuation adjustment was made to the goodwill linked to the Austria component as a result of the industrial and commercial transformation that the directors are implementing (see Note 7).



#### *Greenhouse gas emission allowances-*

When acquired from third parties, emission allowances are recognised at cost less any accumulated impairment losses when entitlement thereto arises for the Group. Emission allowances received for no consideration or at a price substantially lower than their fair value are recognised at fair value. The difference between this value and any consideration given is recognised with a credit to "Deferred Income - Government Grants".

The recognition in profit or loss of the amounts presented under "Other Operating Income" in the accompanying consolidated statement of profit or loss is determined on the basis of the emissions made in proportion to the total emissions forecasted for the complete period for which they were allocated (see Note 24).

Emission allowances are not amortised. The Group derecognises emission allowances using the weighted average cost formula.

#### *Works of art-*

"Works of Art" includes works of art owned by the Group which are measured at cost less any related impairment losses arising as a result of periodic appraisals by independent valuers. In 2015 the works of art were appraised by an independent expert, who concluded that the amounts at which they were measured were correct. Also, in 2016 four works of art were sold generating gains (see Note 8), which, in the directors' opinion, is additional evidence that these assets are not overstated.

Works of art are not depreciated since it is considered that they have an indefinite useful life and do not suffer decline in value from the passage of time. This characteristic applies solely to property, plant and equipment in accordance with the applicable legislation. As a result, at 31 December 2017 "Works of Art" was transferred from "Intangible Assets" to "Property, Plant And Equipment" in the accompanying consolidated statement of financial position (see Notes 7 and 8).

#### *Other intangible assets-*

Other intangible assets (mostly computer software and related developments) acquired by the Group are presented in the consolidated statement of financial position at cost less any accumulated amortisation and impairment losses.

The Parent's directors recognised at fair value a trademark and an agreement with a strategic customer of the subsidiary IBF SpA, which were recognised in the context of the business combinations performed in 2015 (see Note 7). The Parent's directors consider that the trademark has an indefinite useful life and will perform an impairment test at the end of each year. Similarly, the directors will assess the status of the agreement with the customer at the end of each year.

#### *Research and development expenditure-*

The Group recognises research expenditure as an expense in the year in which it is incurred. Development expenditure is capitalised if the following conditions are met:

- It is specifically itemised by project and the related cost can be clearly identified.
- There are sound reasons to foresee the technical success and economic and commercial profitability of the related projects.

Assets thus generated are amortised on a straight-line basis over their years of useful life.

*Useful life and amortisation-*

Intangible assets with finite useful lives are amortised systematically on a straight-line basis over their estimated years of useful life (between five and ten years).

For these purposes amortisable amount is understood to be acquisition or deemed cost less residual value.

The Group reviews the residual value, useful life and amortisation method applied to the intangible assets at the end of each reporting period. Changes in the criteria initially established are accounted for as a change in estimate.

**b) Property, plant and equipment-**

Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, and the surplus resulting therefrom, in accordance with IFRSs, was treated as part of the cost of these assets, less any related accumulated depreciation and impairment losses.

Cost includes the expenses directly attributable to the acquisition of the assets. In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, direct labour and general manufacturing costs calculated using absorption rates similar to those used for the measurement of inventories).

In 2017 the costs capitalised amounted to EUR 7,487 thousand (2016: EUR 7,957 thousand), of which EUR 4,211 thousand, relating mainly to the capitalisation of working hours of the Group's engineers, were recognised under "In-House Work on Non-Current Assets" (31 December 2016: EUR 4,784 thousand). The remaining EUR 3,276 thousand relate to the capitalisation of invoices for external costs which supported the performance of this work (2016: EUR 3,173 thousand), which are recognised under the same heading in which the expense is recognised (basically under "Other Operating Expenses"). Of the EUR 7,487 thousand capitalised (31 December 2016: EUR 7,957 thousand), EUR 4,880 thousand were recognised under "Intangible Assets" (31 December 2016: EUR 5,815 thousand) (see Note 7) and EUR 2,607 thousand were recognised under "Property, Plant and Equipment" (31 December 2016: EUR 2,142 thousand) (see Note 8).

Property, plant and equipment upkeep and maintenance expenses are recognised in the consolidated statement of profit or loss for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Items of property, plant and equipment are depreciated by allocating the depreciable amount thereof to profit or loss on a systematic basis over their useful life. For these purposes depreciable amount is understood to be acquisition or deemed cost less residual value. The Group calculates the depreciation charge separately for each part of an item of property, plant and equipment whose cost is significant in relation to the total cost of the item.

Items of property, plant and equipment are depreciated on a straight-line basis over their years of useful life, the detail being as follows:

	Years of estimated useful life
Buildings	25 - 48
Plant and machinery	5 - 20
Other fixtures, tools, furniture and other items of property, plant and equipment	5 - 10

The directors of the TUBACEX Group periodically review the residual value and useful life of the various items of property, plant and equipment. Changes in the parameters initially established are accounted for as a change in estimate. The Group did not re-estimate the useful life of its assets in 2017 or 2016.

In general, for non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets. The Group capitalised borrowing costs amounting to EUR 703 thousand to "Property, Plant and Equipment in the Course of Construction" in 2017 (2016: no amount).

The Group assesses and calculates the impairment losses and reversals of impairment losses on its property, plant and equipment in accordance with the methods discussed in Note 3-c.

### **c) Impairment of assets-**

At each reporting date, the TUBACEX Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that these assets might have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

If the recoverable amount of an asset is less than its carrying amount, the related impairment loss is recognised for the difference with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying consolidated statement of profit or loss and a credit to "Property, Plant and Equipment" or "Intangible Assets", as appropriate, in the accompanying consolidated statement of financial position.

Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, except in the case of the impairment of goodwill, which must not be reversed.

In 2017 a significant valuation adjustment was made to the goodwill linked to the Austrian component as a result of the industrial and commercial change that the directors are carrying out (see Note 7).

#### **d) Leases-**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

##### *Finance leases*

In finance leases in which the Group acts as the lessee, the cost of the leased assets is presented in the consolidated statement of financial position, based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option when it is reasonably certain that it will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the consolidated statement of profit or loss for the year in which they are incurred using the effective interest method. Contingent rent is recognised as an expense for the period in which it is incurred.

Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment that are owned.

##### *Operating leases*

Expenses resulting from operating leases are charged to income in the year in which they are incurred.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

#### **e) Financial instruments-**

##### *Trade and other receivables*

Trade and other receivables are initially recognised in the consolidated statement of financial position at the fair value of the consideration given, plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph.

The Group recognises an allowance for debts in an irregular situation due to late payment, administration, insolvency or other reasons, after performing a case-by-case collectibility analysis. In 2017 the net change in the allowance for doubtful debts was a reversal of EUR 133 thousand (2016: EUR 290 thousand) (see Note 14).

The Group derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales, factoring of trade receivables in which the Group does not retain any credit or interest rate risk, sales of financial assets under an agreement to repurchase them at fair value and the securitisation of financial assets in which the transferor does not retain any subordinated debt, provide any kind of guarantee or assume any other kind of risk.

At 31 December 2017, the Group derecognised receivables amounting to EUR 43,512 thousand (31 December 2016: EUR 54,217 thousand) as a result of factoring agreements (see Note 2-d). At 31 December 2017, the Group had an unused amount of EUR 41.8 million in relation to these agreements (31 December 2016: EUR 24.7 million).

However, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of bill discounting, with-recourse factoring, sales of financial assets under an agreement to repurchase them at a fixed price or at the selling price plus interest and the securitisation of financial assets in which the transferor retains a subordinated interest or any other kind of guarantee that absorbs substantially all the expected losses. At 31 December 2017, the Group had transferred assets in which substantially all the risks and rewards of ownership are retained, amounting to EUR 23,409 thousand (31 December 2016: EUR 32,451 thousand) (see Note 18).

#### *Financial assets*

In accordance with the classification criteria established by IAS 39, the Group classifies its financial assets in the following categories:

- (1) Non-current loans and other receivables. Non-current loans and other receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. The amortised cost is understood to be the initial cost minus principal repayments and any reduction for impairment or uncollectibility. The effective interest rate is the discount rate that exactly matches the initial value to all its cash flows.
- (2) Held-to-maturity investments. Financial assets with fixed maturity that the Group has the intention and ability to hold to maturity. These investments are also initially recognised at fair value and are subsequently measured at amortised cost.
- (3) Held-for-trading financial assets measured at fair value through profit or loss. These assets must meet any of the following conditions:
  - They have been classified as held-for-trading because they have been acquired to generate a profit through short-term fluctuations in their prices.
  - They are financial derivatives provided that they have not been designated as part of a hedging relationship.
  - They have been included in this category of assets since initial recognition.

- (4) Available-for-sale financial assets. Available-for-sale financial assets are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or as financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. These assets are measured in the consolidated statement of financial position at market value which, in the case of unlisted companies, is obtained using alternative methods, such as comparison with similar transactions or, if sufficient information is available, by discounting expected future cash flows. Changes in market value are recognised with a charge or credit to "Valuation Adjustments" in the consolidated statement of financial position until the investments are disposed of, at which time the cumulative balance of this heading relating to the investments disposed of is recognised in full in the consolidated statement of profit or loss.

Equity investments in unlisted companies, the market value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost.

The directors of the TUBACEX Group decide on the most appropriate classification for each asset on acquisition.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, demand deposits at banks and other short-term, highly liquid investments with current initial maturity, which are subject to an insignificant risk of changes in value. For these purposes, cash and cash equivalents include investments maturing in less than three months from the date of acquisition.

#### *Trade and other payables*

Accounts payable are initially recognised at market value and are subsequently measured at amortised cost using the effective interest rate.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

#### *Bank borrowings and other financial liabilities*

Bank borrowings and other financial liabilities are initially recognised at the proceeds received, net of transaction costs, i.e. equivalent to the subsequent application of the amortised cost model, for which the effective interest rate is used. Borrowing costs are recognised in the consolidated statement of profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise (see Note 18).

#### *Derivative financial instruments*

Derivative financial instruments are initially recognised in accordance with the criteria described above for financial assets and liabilities. Derivative financial instruments that, pursuant to the criteria described below, do not qualify for hedge accounting are classified and measured as financial assets or liabilities at fair value through profit or loss. Derivative financial instruments that qualify for hedge accounting are initially recognised at fair value plus any transaction costs that are directly attributable to the arrangement thereof or less any transaction costs that are directly attributable to the issue thereof.

The Group uses cash flow hedges.

At the inception of the hedge, the Group designates and formally documents the hedging relationship and the objective and strategy for undertaking the hedge. Hedge accounting only applies when the hedge is expected to be highly effective from inception and in subsequent years in offsetting the changes in the fair value or cash flows of the hedged risk during the life of the hedge (prospective analysis) and the actual effectiveness of the hedge, which can be reliably calculated, is within a range of 80 - 125% (retrospective analysis).

Additionally, in relation to cash flow hedges of forecast transactions, the Group assesses whether such transactions are highly probable and whether they are exposed to changes in cash flows that might ultimately affect profit for the year.

The Group only designates as hedged items the assets, liabilities and highly probable forecast transactions that involve a non-Group third party.

The portion of the gains or losses arising from measurement at fair value of the hedging instrument that is identified as an effective hedge is recognised temporarily as income and expenses in equity. The portion of the hedge considered to be ineffective and the specific gains or losses on or cash flows relating to the hedging instrument, which are excluded from the assessment of the effectiveness of the hedge, are charged or credited to "Finance Costs" or "Finance Income", respectively, in the consolidated statement of profit or loss.

When hedge accounting is discontinued, any cumulative loss or gain at that date recognised under "Valuation Adjustments - Hedges" is retained under this heading until the hedged transaction occurs, at which time the loss or gain on the transaction is adjusted. If a hedged transaction is no longer expected to occur, the gain or loss recognised under the aforementioned heading is transferred to the consolidated statement of profit or loss.

#### **f) Treasury shares-**

The treasury shares held by the TUBACEX Group at 31 December 2017 and 2016, which amounted to EUR 7,850 thousand, were recognised at acquisition cost as a reduction of "Equity - Shareholders' Equity" in the consolidated statement of financial position.

#### **g) Inventories-**

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

The formula used by the Group to calculate the cost of each class of inventories is as follows:

- a. Goods held for resale: at acquisition cost calculated using the weighted average cost method.
- b. Raw materials and goods held for conversion: at weighted average cost.
- c. Work in progress and finished goods: at weighted average cost of raw and other materials used, including costs directly related to the units produced, as well as a systematically allocated portion of the fixed and variable indirect costs incurred during conversion of the inventories.

In the measurement of inventories, costs linked to low production or idle plant were not capitalised.

The cost of inventories is written down where cost exceeds net realisable value. For these purposes, net realisable value is taken to be:

- Raw materials and goods held for processing: replacement cost. However, the Group does not write down raw materials and other supplies if the finished products in which they will be incorporated are expected to be disposed of at or above production cost;
- Goods held for resale and finished goods: estimated selling price less the costs necessary to make the sale;
- Work in progress: the estimated selling price of the related finished goods less the estimated costs of completion and selling costs.

Inventory write-downs and reversals are recognised under "Changes in Inventories of Finished Goods and Work in Progress" and "Procurements" in the consolidated statement of profit or loss for the year.

#### ***h) Foreign currency transactions and other obligations-***

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2-f. The remaining non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at each year-end, and the positive and negative exchange differences between the exchange rate used and the year-end exchange rate were recognised in income. Foreign currency transactions for which the TUBACEX Group decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3-e.

#### ***i) Current/Non-current classification-***

In the accompanying consolidated statement of financial position debts are classified on the basis of their maturity at year-end. Current debts are those due to be settled within twelve months and non-current debts are those due to be settled within more than twelve months.

#### ***j) Government grants-***

The Group companies recognise government grants received as follows:

- 1) Non-refundable grants, donations and legacies related to assets: These are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.
- 2) Refundable grants: While they are refundable, they are recognised as a liability.
- 3) Grants related to income: Grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.



Also, grants, donations and legacies received from the shareholders or owners do not constitute income and must be recognised directly in equity, regardless of the type of grant involved, provided that they are not refundable.

#### **k) Employee benefit obligations-**

##### *Pension obligations*

The Group assumed certain obligations to employees which qualify for classification as defined benefit plans. Another part of these obligations was covered in prior years by arranging a single-premium insurance policy. At 31 December 2017, these obligations amounted to EUR 6,665 thousand (31 December 2016: EUR 6,973 thousand) and were recognised under "Non-Current Liabilities - Employee Benefit Obligations" in the accompanying consolidated statement of financial position (see Note 21).

##### *Hand-over contracts*

"Employee Benefit Obligations" in the consolidated statement of financial position as at 31 December 2016 included EUR 205 thousand relating to the present value estimated by the Parent's directors of future payments to be made to employees with hand-over contracts in December 2016. In 2017 the payments related to the hand-over contract liability ended. Accordingly, there is no liability recognised in this connection in the accompanying consolidated statement of financial position (31 December 2016: EUR 205 thousand were recognised in this connection under "Other Payables").

##### *Other long-term employee benefits*

At its meeting of 25 March 2013, the Parent's Board of Directors approved a long-term incentive plan for the members of the Group's Management Committee, who are senior executives of the Tubacex Group (see Note 25). The plan consisted of multiannual remuneration linked to the achievement of the main targets included in the 2013-2017 Strategic Plan (see Note 21) and of a share option plan (see Notes 3-l and 16-f). The multiannual remuneration ended on 31 December 2017 and no liabilities were recognised in this connection as no payments thereunder were envisaged (see Note 21). The share option plan ended on 31 December 2015, after which a new plan was approved on 25 May 2016 by the Board of Directors and by the shareholders at the Annual General Meeting, as explained in Notes 3-l and 16-f.

Also, under the obligations assumed by certain subsidiaries to their employees, the Group is obliged to award long-service bonuses upon retirement and other benefits agreed upon with the employees which are paid more than twelve months after the end of the period in which they accrue.

The Group recognised in the accompanying consolidated financial statements as at 31 December 2017 liabilities arising from these obligations amounting to EUR 1,386 thousand under "Non-Current Liabilities - Employee Benefit Obligations" in the consolidated statement of financial position (31 December 2016: EUR 4,212 thousand) (see Note 21), having reversed EUR 2,761 thousand with a credit to "Staff Costs" in the accompanying consolidated statement profit or loss for 2017 (2016: charge of EUR 438 thousand) (see Note 25).

Actuarial gains and losses arising from the Group's defined benefit obligations to its employees are recognised in the consolidated statement of comprehensive income.

### **l) Share-based payments-**

The Group recognises, on the one hand, the goods and services received as an asset or as an expense, depending on their nature, when they are received and, on the other, the related increase in equity, if the transaction is equity-settled, or the related liability if the transaction is settled with an amount based on the value of the equity instruments.

In the case of equity-settled transactions, both the services rendered and the increase in equity are measured at the fair value of the equity instruments granted, by reference to the grant date. However, in the case of cash-settled share-based payments, the goods and services received and the related liability are recognised at the fair value of the latter, with reference to the date on which the requirements for their recognition are met.

In the case of equity-settled share-based payments, this fair value is charged on a straight-line basis over the vesting period to "Staff Costs" in the consolidated statement of profit or loss and with a credit to "Other Equity Instruments" in the consolidated statement of financial position (see Note 16-f), based on the Group's estimate of the shares that will eventually vest.

Fair value is measured using the market prices available on the measurement date, taking into account the characteristics of the related plan. If market prices are not available, generally accepted valuation techniques for measuring financial instruments of this nature are used (see Note 16-f).

The Group recognised in the accompanying consolidated financial statements as at 31 December 2017 EUR 511 thousand (31 December 2016: EUR 279 thousand) in connection with the obligation relating to the incentive plans recognised under "Other Equity Instruments" in the accompanying consolidated statement of financial position.

### **m) Termination benefits-**

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying consolidated financial statements do not include any material provision in this connection since no situations of this nature are expected to arise.

### **n) Income tax-**

On 26 December 2013, the provincial tax authorities of Álava received notification of the intention of the Parent and of certain subsidiaries located in the Basque Country and subject to Álava income tax legislation to file consolidated tax returns from 1 January 2014 in accordance with Álava Income Tax Regulation 37/2013, of 13 December. Tubacex, S.A. is the parent of the tax group. In 2016 Tubacex Advance Solutions, S.L.U., Tubacex Services Solutions Holding, S.L.U. and Tubacex Upstream Technologies, S.A. were included in the scope of consolidation.

Companies that file consolidated tax returns apply the criteria provided for under the Resolution issued by the Spanish Accounting and Audit Institute (ICAC) of 9 October 1997 in order to recognise the accounting effects of the consolidated filing of tax returns (see Note 22).

The other Group companies file separate income tax returns in accordance with the tax regimes applicable to them on the basis of the locations of their registered offices.

The expense for Spanish income tax and similar taxes applicable to the consolidated foreign companies is recognised in the consolidated statement of profit or loss, unless it arises from a transaction whose results are recognised directly in equity, in which case the related tax is also recognised in equity.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, plus the change in deferred tax assets and liabilities, and any tax loss and tax credit carryforwards.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets recognised for tax loss and tax credit carryforwards and temporary differences are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Pursuant to IFRSs, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities, respectively.

#### ***o) Provisions and contingencies-***

When preparing the consolidated financial statements the TUBACEX Group's directors made a distinction between:

- a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and
- b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Group's control.

The consolidated financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Group is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

#### *Provision for emission allowances-*

The expenses relating to greenhouse gas emissions are recognised systematically with a credit to the provision for emission allowances which is reversed on delivery of the related allowances granted by public authorities for no consideration or acquired in the market.

The provision is calculated on the basis that the obligation will be settled:

- Firstly, using the emission allowances transferred to the Parent's credit account at the National Emission Allowance Registry under a National Allocation Plan. The expense corresponding to this part of the obligation is determined on the basis of the carrying amount of the emission allowances transferred.
- Then the remaining emission allowances recognised are used. The expense corresponding to this part of the obligation is determined using the average price or weighted average cost of these emission allowances.
- Since the Group has sufficient emission rights, it did not need to recognise any additional provisions for the need to acquire additional rights.

#### **p) Revenue recognition-**

Revenue from sales and services rendered is measured at the fair value of the assets or rights received as consideration for the goods and services provided in the normal course of the Group companies' business, net of discounts and applicable taxes.

##### *Sales of goods*

Sales of goods are recognised when substantially all the risks and rewards of ownership of the goods have been transferred, the Group does not retain effective control over them, revenue can be measured reliably and is likely to be received and the transaction costs incurred or to be incurred can be measured reliably.

##### *Construction contracts*

The Group recognises the income and profit or loss on a construction contract by reference to its estimated stage of completion pursuant to IAS 11, which is calculated on the basis of the cost incurred at the calculation date as a percentage of total budgeted costs for the contract.

Based on the stage of completion, inventories are derecognised with a charge to "Inventories" in the accompanying consolidated statement of financial position (see Notes 13 and 14), while the revenue calculated is recognised with a credit to the consolidated statement of profit or loss and a charge to "Trade and Other Receivables - Trade Receivables for Sales And Services" (see Notes 3-v and 14).

##### *Interest and dividends*

Interest income from financial assets is recognised using the effective interest method and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognised as income.

**q) Environmental matters-**

The Group recognises environmental investments at acquisition or production cost, net of the related accumulated depreciation, and classifies them by nature in the appropriate non-current asset accounts (see Notes 8 and 29).

Expenses incurred in order to comply with the applicable environmental legislation are classified by nature under "Other Operating Expenses" in the accompanying consolidated statement of profit or loss (see Note 29).

Expenses arising from greenhouse gas emissions (Law 1/2005, of 9 March) are recognised at their fair value or at the cost of the rights allocated or acquired with a credit to the related provision account when these gases are emitted during the production process.

**r) Consolidated statement of cash flows-**

The following terms are used in the consolidated statement of cash flows, which was prepared using the indirect method, with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of the TUBACEX Group companies and other activities that are not investing or financing activities.
- Investing activities. The acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

The Group classifies interest received as cash flows from investing activities and interest paid as cash flows from financing activities. Dividends paid are classified as financing activities.

**s) Earnings per share-**

Basic earnings per share are calculated by dividing the net profit for the year attributable to the TUBACEX Group by the weighted average number of ordinary shares outstanding in the year, excluding the average number of TUBACEX shares held in the year.

Diluted earnings per share are calculated by dividing the net profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the year, adjusted by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the Parent.

At 31 December 2017 and 2016, basic earnings per share coincided with diluted earnings per share, since there were no potential shares outstanding during the years then ended (see Note 23).

**t) Discontinued operations-**

A discontinued operation is a sufficiently significant line of business that it has been decided to abandon and/or sell, whose assets, liabilities and net profit or loss can be distinguished physically, operationally and for financial reporting purposes. Income and expenses of discontinued operations are presented separately in the consolidated statement of profit or loss.

No lines of business or business segments were discontinued in 2017 or 2016.

**u) Related party transactions-**

In all the transactions the Group performs with related parties, it fixes transfer prices in line with the OECD guidelines governing transactions with Group companies and associates. Therefore, the Parent's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future that have not already been recognised.

**v) Customer advances-**

The difference between revenue recognised on each project (see Notes 3-p, 13 and 14) and the amount billed for the project is recognised as follows:

- If the difference is positive, under "Trade and Other Receivables - Trade Receivables for Sales and Services - Amounts to Be Billed for Work Performed" (deferred billings).
- If the difference is negative, under "Trade and Other Payables - Other Payables" (prebillings).

**4. Allocation of the loss of the Parent**

The proposed allocation of the loss for the year that the Parent's directors will submit for approval by the shareholders at the Annual General Meeting is as follows (in thousands of euros):

	2017
Prior years' losses	(28,832)
<b>Total</b>	<b>(28,832)</b>

**5. Financial risk management policy and other**

The TUBACEX Group engages in activities that are exposed to various financial risks: market risk (including foreign currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The financial risk management policy adopted by the TUBACEX Group focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's financial performance. The Group uses derivatives to hedge certain risks.

Risk management is controlled by the Group's Financial Department in accordance with the policies approved by the Board of Directors. This Department identifies, assesses and hedges financial risks in close cooperation with the Group's Administration and Financial and Purchasing Departments. The Board of Directors sets policies for global risk management, as well as for specific matters such as foreign currency risk, interest rate risk, liquidity risk, the use of derivative and non-derivative instruments and investment of surplus liquidity.

**a) Market risk-**

**a.1) Foreign currency risk-**

The Group operates in the international market and, therefore, is exposed to foreign currency risk on the transactions performed by it in foreign currencies, particularly the US dollar, and, as a result of the business combination carried out in India in 2015, gradually increased exposure to the Indian rupee is expected as business in that country grows. Foreign currency risk arises on future commercial purchases of raw materials and sales of products in foreign currencies, recognised assets and liabilities and net investments in foreign operations.

At 31 December 2017, had the euro depreciated by 10% against the US dollar, with all other variables remaining unchanged, consolidated loss after tax would have been EUR 9,793 thousand higher (2016: EUR 11,645 thousand lower), without taking into account the hedging policy.

The Group companies use forward foreign currency purchases and sales arranged with banks to hedge the foreign currency risk arising from future commercial purchases of raw materials and sales of products in foreign currencies and recognised assets and liabilities. Foreign currency risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Group's functional currency. The Group's Financial Department is responsible for managing the net position in foreign currencies using external foreign currency forward contracts. Note 12 contains a detail of the forward foreign currency purchase and sale contracts at 31 December 2017 and 2016.

For reporting purposes, Group management designates external foreign currency contracts as foreign currency risk hedges of certain assets, liabilities or future transactions.

The Group has various investments in foreign operations the net assets of which are exposed to foreign currency risk, mainly in US dollars but also in Indian rupees, as a result of the new investment carried out. The Group assumes the foreign currency risk on the net assets of its foreign operations since it is not representative of total assets. At 31 December 2017, net assets held in the US amounted to approximately EUR 45,499 thousand (2016: approximately EUR 51,543 thousand), while the net assets held in India amounted to approximately EUR 37,893 thousand (2016: approximately EUR 39,008 thousand) (see Note 2-c).

**a.2) Commodity price risk-**

In the strategic plan, the directors have set as a key objective the reduction of the impact of commodity price volatility on the consolidated statement of profit or loss, and Group management maintains firm control over the working capital positions, on the basis of the periodic milestones in the production process and billings, in order to minimise the aforementioned volatility impact.

In the case of sales orders negotiated at a variable price, commodity price risk is significantly offset by the implicit hedge provided by the alloy surcharges that the Group passes on to its customers in the selling price, by means of which the Group achieves a highly effective natural hedge.

For sale orders negotiated at a fixed price, since March 2007, the Group has used commodity price futures contracts whose expected maturity is in line with the commencement of production of each order so as to ensure the margins set on arrangement of the sale are obtained.

At 31 December 2017, had the price of nickel risen or fallen by 10%, consolidated purchases would have risen or fallen by approximately EUR 6,992 thousand (2016: approximately EUR 5,755 thousand), an amount that was mitigated by the effect on the sales price of the alloy surcharges.

Additionally, had commodity prices as a whole risen or fallen by 10%, consolidated purchases would have risen or fallen by approximately EUR 13,090 thousand (2016: approximately EUR 9,599 thousand).

In 2017 and 2016 the Group did not hedge any nickel purchases through commodity price futures contracts. However, the Group did make forward purchases (see Note 13) to guarantee prices and hedge the price volatility of this commodity.

Also, the market price of oil implicitly influences the consolidated statement of profit or loss, although the quantification of this impact is not possible. This is a result of the correlation between crude oil prices and the reduction in orders from the oil and gas market, to which the Group supplies its high-value-added products. The strategic plan sets objectives such as value chain growth, increasing product diversification and seeking geographical diversification for the Tubacex Group in order to offset exposure to oil prices and one-off macroeconomic events in the various markets. The transactions detailed in Notes 2-f and 31 are in line with these objectives established in the 2013-2017 Strategic Plan.

### ***a.3) Available-for-sale financial assets-***

Market risk arises mainly from investments in investment funds classified as held for sale. The main objective of the Group's investment policy is to maximise returns on investments, while keeping risks under control.

### ***a.4) Investments in works of art-***

The Group is also exposed to market risk due to its investments in works of art, which are recognised under "Property Plant and Equipment" (see Notes 7 and 8). The Group periodically commissions independent third party appraisals in order to identify potential unrealised losses, and an appraisal performed in 2015 concluded that the assets were correctly valued. The directors also consider that sales in 2016 show that the carrying amount thereof is lower than their fair value.



## **b) Credit risk**

The Group does not have any material credit risk concentration. In order to hedge the credit risk on sales, the Group implements a prudent hedging policy mainly with credit insurance companies in the event that sales are not made to highly solvent customers.

Derivatives transactions and spot transactions are only carried out with banks with high credit ratings. The Group has policies to limit the amount of risk exposure to any given bank.

At 31 December 2017, the exposure of the Group's assets to this risk was limited mainly to the committed collection rights recognised under "Trade Receivables for Sales and Services", which total EUR 77,800 thousand (2016: EUR 65,708 thousand), of which EUR 2,503 thousand related to amounts to be billed for work performed associated with a construction contract (see Notes 3-v and 14). Impairment losses amounting to EUR 2,451 thousand (2016: EUR 2,900 thousand) were recognised on part of these committed collection rights since the Group considered the recovery thereof as doubtful (see Note 14).

At 31 December 2017, the past-due unimpaired committed collection rights recognised under these headings amounted to approximately EUR 25,408 thousand (2016: approximately EUR 22,276 thousand). Most of these collection rights are less than two months past due and the Group does not consider their recovery to be doubtful, since normal business operations occasionally result in collection delays for reasons other than the risk of default. At the date of formal preparation of these consolidated financial statements the Group had collected most of the receivables which were past due at 31 December 2017.

## **c) Liquidity risk-**

The Group manages liquidity risk prudently by arranging loans with extended maturities and favourable financial conditions, credit lines with extended limits, a portion of which are not drawn down, allowing for the availability of credit in the short term, factoring facilities which help bring forward collections from clients, reverse factoring arrangements which facilitate the management of payments to suppliers, and by diversifying the financing obtained, spreading financial creditors among several banks, the public authority that grants loans from the Spanish Centre for Industrial Technological Development (CDTI), the European Investment Bank, or seeking financing in the Alternative Fixed Income Market (MARF) (see Notes 18 and 19). All of these mechanisms help the Tubacex Group to maintain a good liquidity position.

Current income tax liabilities will be settled approximately seven months after 31 December 2017.

The detail of "Trade and Other Payables", by maturity, is as follows:

	Thousands of euros	
	2017	2016
Within 3 months	147,009	119,137
Between 3 and 12 months	17,499	14,324
After 12 months	775	-
	<b>165,283</b>	<b>133,461</b>

**d) Cash flow and fair value interest rate risk-**

Since the Group does not have any significant interest-earning assets, most of the income and cash flows from the Group's operating activities are largely unaffected by changes in market interest rates.

The Group's interest rate risk arises from current and non-current borrowings. Debt issued at floating rates exposes the Group to cash flow interest rate risk. This risk is hedged using mainly interest rate swaps (see Note 12). Fixed-rate loans expose the Group to fair value interest rate risk.

Current and non-current loans and other interest-bearing liabilities at 31 December 2017 amounted to EUR 408,454 thousand (2016: EUR 354,258 thousand). In 2017 the average balance of current bank borrowings was approximately EUR 259 million (2016: approximately EUR 195 million). Taking into account the balance drawn down, in 2017 a 5% rise or fall in the market interest rates would have given rise to a rise or fall, respectively, of EUR 481 thousand in loss before tax (2016: EUR 437 thousand), without taking into consideration the impact of the derivative.

The fair values of the various consolidated statement of financial position categories do not differ substantially from their carrying amounts at 31 December 2017 and 2016.

**6. Segment reporting**

**a) Basis of segmentation**

As described below, the Group is internally organised by operating segments, which are the strategic business units. The strategic business units have various products and services and are managed separately because they require different technology and market strategies.

Information on the Tubacex Group's product portfolio, the markets in which it operates and its general sales conditions is provided on the Group's corporate website.

At 31 December 2017 and 2016, the Group comprised the following operating segments, the main products and services of which are as follows:

- Stainless segment
- Carbon segment

**b) Basis and methodology for segment reporting**

The performance of the segments is measured on the basis of their profit or loss before tax. Segment profit is used as a measure of performance since the Group considers that this information is the most relevant when assessing the results of certain segments in relation to other groups operating in these businesses.

In accordance with the basis for primary segment reporting set forth in IFRSs (IFRS 8, Operating Segments), the TUBACEX Group considered the two aforementioned business units as operating segments, since it considers that their organisational and management structures and their systems of internal reporting to their managing and executive bodies are such that the risks and returns are affected predominantly by the fact that their operations are performed in one or the other business area, taken to be all of the related products and services. Therefore, through segment reporting, the identifiable components of the TUBACEX Group characterised by being subject to risks and returns of a different nature to those corresponding to other operations carried on in other areas are identified.

In this respect, based on historical experience, the following segments were defined:

- Seamless stainless steel pipes
- Carbon steel pipes

Segment information about the businesses is presented below:

	Thousands of euros					
	Stainless steel pipe segment		Carbon steel pipe segment		Total consolidated	
	2017	2016	2017	2016	2017	2016
Total segment revenue	468,833	475,530	21,528	18,499	490,361	494,029
Depreciation and amortisation charge and impairment losses	(54,004)	(32,217)	(193)	(208)	(54,197)	(32,425)
Inventory write-downs (Note 13)	(3,075)	-	-	-	(3,075)	-
Finance income	2,072	1,038	113	-	2,185	1,038
Finance costs	(11,233)	(8,656)	-	(94)	(11,233)	(8,750)
Share in profits of companies accounted for using the equity method	8	29	-	-	8	29
Exchange differences	(1,786)	(393)	-	-	(1,786)	(393)
<b>Segment profit (loss) before tax</b>	<b>(42,023)</b>	<b>(7,088)</b>	<b>2,940</b>	<b>1,534</b>	<b>(39,083)</b>	<b>(5,554)</b>
Income tax expense	15,806	4,436	(831)	(445)	14,975	3,991
<b>Profit (Loss) for the year</b>	<b>(26,217)</b>	<b>(2,637)</b>	<b>2,109</b>	<b>1,074</b>	<b>(24,108)</b>	<b>(1,563)</b>
Segment assets	869,526	818,023	36,304	33,141	905,830	851,164
Investments accounted for using the equity method	346	637	-	-	346	637
<b>Total segment assets</b>	<b>869,872</b>	<b>818,660</b>	<b>36,304</b>	<b>33,141</b>	<b>906,176</b>	<b>851,801</b>
Investments in non-current fixed assets	34,830	33,984	58	12	34,888	33,996
<b>Total segment liabilities</b>	<b>618,907</b>	<b>533,416</b>	<b>5,454</b>	<b>4,825</b>	<b>624,361</b>	<b>538,241</b>

The business segments are managed at global level since the Group operates throughout the world, its main markets being Europe, the US and India (see Note 2-f). The main activities in Europe are carried on in Spain, Germany, Austria, France, Italy, the Netherlands and the United Kingdom.

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

The information based on geographical location is as follows:

- a) The breakdown of sales by geographical area at 31 December 2017 and 2016 is as follows (in thousands of euros):

Geographical area	2017	%	2016	%
Spain	42,910	9%	43,722	9%
Rest of Europe	240,391	49%	235,263	47%
US	39,950	8%	32,988	7%
Other countries	167,110	34%	182,056	37%
<b>Total sales</b>	<b>490,361</b>	<b>100%</b>	<b>494,029</b>	<b>100%</b>

- b) The distribution, by geographical area, of net investments in non-current assets at 31 December 2017 and 2016 is as follows (in thousands of euros):

Geographical area	2017	%	2016	%
Spain	199,264	49.6%	195,379	49%
Rest of Europe	151,274	37.6%	154,885	38%
India	29,084	7.2%	27,705	7%
US	20,629	5.1%	24,296	6%
Thailand	1,579	0.4%	-	0%
Brazil	15	0%	17	0%
<b>Total non-current assets</b>	<b>401,845</b>	<b>100%</b>	<b>402,282</b>	<b>100%</b>

## 7. Intangible assets

The detail of "Intangible Assets" and of the changes therein in 2017 and 2016 is as follows (in thousands of euros):

	Thousands of euros				
	Goodwill	Works of art (Note 8)	Other intangible assets	Greenhouse gas emission allowances	Total
<b>Cost-</b>					
<b>Cost at 01/01/16</b>	<b>28,383</b>	<b>5,788</b>	<b>56,555</b>	<b>618</b>	<b>91,344</b>
Additions	-	-	6,330	211	6,541
Disposals	-	(238)	(71)	(267)	(576)
Translation differences	-	-	28	-	28
<b>Cost at 31/12/16</b>	<b>28,383</b>	<b>5,550</b>	<b>62,842</b>	<b>562</b>	<b>97,337</b>
Additions	-	-	8,398	156	8,554
Disposals	-	-	(1,187)	(305)	(1,492)
Translation differences	-	-	(2)	-	(2)
Transfers (Note 8)	-	(5,550)	-	-	(5,550)
<b>Cost at 31/12/17</b>	<b>28,383</b>	<b>-</b>	<b>70,051</b>	<b>413</b>	<b>98,847</b>
<b>Accumulated amortisation-</b>					
<b>Accumulated amortisation at 01/01/16</b>	-	-	<b>(21,791)</b>	-	<b>(21,791)</b>
Charge for the year	-	-	(3,245)	-	(3,245)
Disposals	-	-	71	-	71
Translation differences	-	-	(3)	-	(3)
<b>Accumulated amortisation at 31/12/16</b>	-	-	<b>(24,968)</b>	-	<b>(24,968)</b>
Charge for the year	-	-	(4,348)	-	(4,348)
Disposals	-	-	1,044	-	1,044
Translation differences	-	-	6	-	6
<b>Accumulated amortisation at 31/12/17</b>	-	-	<b>(28,266)</b>	-	<b>(28,266)</b>
<b>Accumulated impairment losses at 31/12/16</b>	-	<b>(736)</b>	-	-	<b>(736)</b>
Charge for the year	(16,275)	-	(2,400)	-	(18,675)
Transfers (Note 8)	-	736	-	-	736
<b>Accumulated impairment losses at 31/12/17</b>	<b>(16,275)</b>	-	<b>(2,400)</b>	-	<b>(18,675)</b>
<b>Net intangible assets at 31/12/16</b>	<b>28,383</b>	<b>4,814</b>	<b>37,874</b>	<b>562</b>	<b>71,633</b>
<b>Net intangible assets at 31/12/17</b>	<b>12,108</b>	<b>-</b>	<b>39,385</b>	<b>413</b>	<b>51,906</b>

The most significant additions in 2017 related to research and development work in connection with new products or more efficient work methods in the production plants amounting to EUR 4,880 thousand (2016: EUR 5,815 thousand) (see Note 3-b).

Also in 2017 the Parent reclassified EUR 4,814 thousand of the works of art recognised under "Intangible Assets" to "Property Plant and Equipment" (see Notes 3-a and 8).

**a) Goodwill-**

The detail of goodwill is as follows:

	31/12/16	Impairment	Allocation	31/12/17
Schoeller- Bleckmann (Sber)	18,275	(16,275)	(2,000)	-
TSS Austria	-	-	2,000	2,000
Tubacex Prakash India Pvt Ltd	10,008	-	-	10,008
MIS	100	-	-	100
<b>Total</b>	<b>28,383</b>	<b>(16,275)</b>	<b>-</b>	<b>12,108</b>

**Goodwill of Schoeller - Bleckmann (Sber)**

The goodwill arose mainly from the acquisition of the SBER Group and was allocated to the cash-generating unit composed of the companies located in Austria, which form a productive cash-generating unit. At present, the companies located in Austria are Schoeller Bleckmann, a production company whose cornerstone activity will be the production of high-value-added products and TSS Austria, which was created in 2016 (see Note 2-f), a company that will perform the traditional distribution line of business. The internal reorganisation of both these businesses gave rise to the reallocation of goodwill in 2017 and as a result goodwill allocated to the distribution business amounts to EUR 2 million, based on the appraisal of the transferred business performed by an independent valuer.

The recoverable amount of the cash-generating unit was determined on the basis of the calculation of its value in use. These calculations use cash flow projections based on five-year financial budgets approved by the directors. The directors determine the budgeted gross margin on the basis of past performance and expectations regarding the evolution of the market. They consider the current market situation regarding commodity prices to be highly unfavourable due to a convergence of macroeconomic factors, and that a recovery of the commodities market in the short and medium term will improve the budget projections, which they consider to be prudent.

Taking into consideration the change in activity to high-value-added products, particularly umbilicals (in 2017 and 2016 significant orders were placed, in certain cases, multiannual orders), in 2016 the Parent's directors approved a new Industrial Plan (already being implemented) for the period 2017 - 2021 in order to direct the commercial and industrial strategy of SBER towards this type of high-value-added product, using mainly the installed capacity.

In order to achieve this plan it was resolved to invest EUR 22 million in SBER's non-current assets between 2017 and 2021 with a view to:

- increasing the production capacity of high-value-added products
- structuring the plant's assets more efficiently from a lean-manufacturing standpoint, which will help to reduce working capital levels and ensure a more efficient production process
- further automating the production process

The projections made by the Parent's directors for 2018-2022 for the impairment test on goodwill were based on those approved in the aforementioned Industrial Plan. In 2017, due to the failure to meet the projections made in the previous year, the Parent made a downward adjustment to the projected cash flows. Other assumptions assumed in the goodwill impairment test are:

- The post-tax discount rate used in the cash flow projections was 7.4% in 2017 (2016: 7.9%) and reflected the specific risks of the cash-generating unit. This post-tax discount rate was equal to a pre-tax discount rate of 9.3%. This discount rate, which was estimated by management, was compared to and consistent with an average of discount rates used by specialists.
- Perpetuity growth rate projection ("g" = 1.9%) equivalent to the expected long-term inflation rate for Austria and the growth rate given by analysts for the Tubacex Group.

On the basis of the estimates and projections available to the Group's directors, based on the Industrial Plan approved in 2016 and is still in progress, the net cash flow projections attributable to this UGE support the value of the goodwill. Despite this, due to the high level of sensitivity to variances in sales, WACC and perpetuity growth rates ("g"), as well as to the repeated non-compliance with the projections in recent years, the directors have recognised an impairment loss of EUR 16,275 thousand with a charge to "Depreciation and Amortisation Charge and Impairment Losses on Non-Current Assets".

#### **Goodwill of Tubacex Prakash India Pvt Ltd**

The acquisition by the Indian subsidiary Tubacex Prakash India Pvt Ltd of the production line of Prakash Steelage Pvt Ltd for INR 2,091 million gave rise to a difference of INR 708 million between the price paid and the net assets acquired (EUR 10,008 thousand).

As in the case of the test for the impairment of goodwill of SBER, the recoverable amount of this CGU was calculated on the basis of its value in use. These calculations use cash flow projections based on five-year financial budgets approved by management. Management determined the budgeted gross margin for the Indian company on the basis of its expectations regarding the evolution of the market. Specifically, management used as main assumptions significant annual growth in sales volumes and post-tax discount rate used in the cash flow projections of 8.1% and a growth rate equal to those used to measure the goodwill of Austria.

Based on the estimates and forecasts available to the Group's directors, the projected net cash flows attributable to this cash generating unit support the value of this goodwill, concluding that it is not impaired at 31 December 2017.

From a sensitivity-analysis standpoint, an increase of 100 basis points in the discount rate would not give rise to impairment of this goodwill. Similarly, a 2,000 basis point reduction in the assumption of annual sales growth, to 5% annual growth, would not give rise to impairment.

**b) Emission allowances-**

The detail of the fair value at 31 December 2017 and initial value of the non-monetary grants relating to emission allowances received by the Group companies in 2017 and 2016 is as follows:

Thousands of euros			
2017		2016	
Fair value	Initial value	Fair value	Initial value
116	157	184	211

The detail of the changes in the number of allowances in 2017 and 2016 is as follows:

	Number of allowances
<b>Balances at 31 December 2016</b>	<b>72,596</b>
Additions	25,694
Disposals	(39,280)
<b>Balances at 31 December 2017</b>	<b>59,010</b>

**c) Works of art-**

These are works of art owned by the Parent. The TUBACEX Group commissions periodically an independent expert appraisal of these works of art and the market valuation arising therefrom is in line with the carrying amount recognised at 31 December 2017 and 2016 (the most recent appraisal commissioned by the Parent was in 2015). Works of art are not depreciated since it is considered that they do not suffer decline in value from the passage of time. Pursuant to the applicable regulations, this characteristic applies solely to property, plant and equipment. As a result, at 31 December 2017 "Works of Art" was transferred from "Intangible Assets" to "Property, Plant And Equipment" in the accompanying consolidated statement of financial position (see Notes 3-a, 7 and 8).

At 2017 year-end the Group had no firm intangible asset purchase commitments (2016 year-end: EUR 50 thousand).

At 2017 year-end the Group had fully amortised intangible assets in use (mostly computer software) amounting to EUR 14,075 thousand (2016 year-end: EUR 15,118 thousand).



Of the Group's intangible assets and property plant and equipment (see Notes 3-a, 7 and 8), at the end of 2017 and 2016 the following items were not being used directly in operations (in thousands of euros):

	2017			2016		
	Cost	Valuation adjustments	Total	Cost	Valuation adjustments	Total
Works of art	5,550	(736)	4,814	5,550	(736)	4,814

There were no changes in 2017. In 2016 the Group sold four works of art for EUR 499 thousand, the carrying amount of which was EUR 238 thousand. Income of EUR 261 thousand from the transaction was recognised under other "Other Operating Income" in the consolidated statement of profit or loss for 2016 (see Note 24).

**d) Other intangible assets**

In 2015 assets arising from the purchase of IBF S.p.A. were recognised at their fair value under "Intangible Assets". Specifically, these assets relate to a brand amounting to EUR 11.7 million; an agreement with a strategic customer to produce a specific product for the amount of EUR 9.6 million; and a customer portfolio amounting to EUR 1.5 million, which was valued by an independent expert as part of a purchase price allocation process. The revaluation of these assets gave rise to a deferred tax liability which was recognised in order to reflect the transaction net of its tax effect (see Note 22) in the accompanying consolidated financial statements.

The brand (since it has an indefinite useful life) and the agreement with the strategic customer are tested each year to ascertain whether they have become impaired. Furthermore, the customer portfolio was fully amortised in 2015 (see Note 3-a).

*IBF brand*

At the end of 2017 the directors assessed whether the intangible asset relating to the IBF brand had become impaired. To determine the recoverable amount, the directors used the royalty rate approach, which is based on the value of the asset being equal to the present value of the income obtained or the theoretical income from collecting a royalty that the asset generates or might generate. The asset is discounted to present value using a discount rate plus a premium, since it is considered that due to its nature it is an asset the projected cash flows of which are subject to increased risk.

The main assumptions assumed to test the brand for impairment were:

- Sales projections based on four-year financial budgets approved by the directors. These projected sales are lower than the sales projected in the purchase price allocation (PPA) process performed in 2015.
- The directors estimated the sales between 2018 and 2022 on the basis of their market development projections and taking into consideration that the current commodities market situation is particularly unfavourable but will not continue long term.
- The directors consider that, at long term, the assumptions regarding the company's market potential used in the acquisition of IBF, S.p.A. have not changed.
- A royalty rate of 0.7% was used, which is similar to the rate used by the independent expert when performing the PPA process.
- The cash flows were discounted to present value using a discount rate of 9.9% (corresponding to a WACC of 7.9% plus a 2% risk premium).

Based on the results of the foregoing test, at 31 December 2017, the Parent's directors consider that the IBF brand has not become impaired. However, this intangible asset will be tested for impairment at least once a year.

*Agreement with strategic customer*

With respect to the intangible asset in relation with the agreement with the strategic customer, it is associated with four orders for a specific product which, when the asset was recognised, it was envisaged would be received prior to 2021, and the asset would be amortised as the various orders were produced. Although management considers that IBF will be the successful bidder for the orders in the coming years, there are indications of a delay in relation to the timetable initially envisaged when IBF was acquired to gain the aforementioned orders, and the best estimate at 31 December 2017 is that three orders will be placed before 2021. Therefore, an impairment loss of EUR 2.4 million (amount equivalent to one of the four orders initially estimated) was included in the consolidated statement of profit or loss with a charge to "Depreciation and Amortisation Charge and Impairment Losses on Non-Current Assets".

## 8. Property, plant and equipment

The detail of "Property, Plant and Equipment" in the consolidated statement of financial position and of the changes therein in 2017 and 2016 is as follows:

	Thousands of euros						
	Land	Buildings	Plant and machinery	Other fixtures, tools, furniture and other items of property, plant and equipment	Works of art (Note 7)	Advances and property, plant and equipment in the course of construction	Total
<b>Cost-</b>							
<b>Cost at 01/01/16</b>	<b>26,346</b>	<b>107,999</b>	<b>565,918</b>	<b>36,032</b>	-	<b>12,822</b>	<b>749,117</b>
Additions	-	3,477	17,715	3,243	-	9,561	33,996
Disposals	(252)	(28)	(1,124)	(3,414)	-	(27)	(4,845)
Transfers	-	760	2,783	1,412	-	(4,955)	-
Translation differences	50	340	1,182	(28)	-	94	1,638
<b>Cost at 31/12/16</b>	<b>26,144</b>	<b>112,548</b>	<b>586,474</b>	<b>37,245</b>	-	<b>17,495</b>	<b>779,906</b>
Inclusions in the scope of consolidation (Note 2-f)	199	1,380	-	-	-	-	1,579
Additions	-	414	22,078	2,602	-	9,794	34,888
Disposals	-	(77)	(5,770)	(2,670)	-	-	(8,517)
Transfers	-	536	13,786	1,610	5,550	(15,932)	5,550
Translation differences	(451)	(2,061)	(4,159)	(128)	-	(446)	(7,247)
<b>Cost at 31/12/17</b>	<b>25,892</b>	<b>112,740</b>	<b>612,409</b>	<b>38,659</b>	<b>5,550</b>	<b>10,911</b>	<b>806,161</b>
<b>Accumulated depreciation-</b>							
<b>Accumulated depreciation at 01/01/16</b>	-	<b>(70,454)</b>	<b>(386,549)</b>	<b>(28,375)</b>	-	-	<b>(485,378)</b>
Charge for the year	-	(2,084)	(23,674)	(3,422)	-	-	(29,180)
Disposals	-	19	1,032	2,007	-	-	3,058
Translation differences	-	(91)	(684)	(10)	-	-	(785)
<b>Accumulated depreciation at 31/12/16</b>	-	<b>(72,610)</b>	<b>(409,875)</b>	<b>(29,800)</b>	-	-	<b>(512,285)</b>
Charge for the year	-	(2,154)	(26,102)	(2,918)	-	-	(31,174)
Disposals	-	68	5,681	1,651	-	-	7,400
Translation differences	-	354	2,665	50	-	-	3,069
<b>Accumulated depreciation at 31/12/17</b>	-	<b>(74,342)</b>	<b>(427,631)</b>	<b>(31,017)</b>	-	-	<b>(532,990)</b>
<b>Accumulated impairment losses at 31/12/16</b>	-	-	-	-	-	-	-
Impairment losses (recognised)/ reversed in the year	-	-	-	-	-	-	-
Transfers	-	-	-	-	(736)	-	(736)
<b>Accumulated impairment losses at 31/12/17</b>	-	-	-	-	<b>(736)</b>	-	<b>(736)</b>
<b>Net property, plant and equipment at 31/12/16</b>	<b>26,144</b>	<b>39,938</b>	<b>176,599</b>	<b>7,445</b>	-	<b>17,495</b>	<b>267,621</b>
<b>Net property, plant and equipment at 31/12/17</b>	<b>25,892</b>	<b>38,398</b>	<b>184,778</b>	<b>7,642</b>	<b>4,814</b>	<b>10,911</b>	<b>272,435</b>

The main additions in 2017 related to an extrusion press and six Pilger laminators (three of which are intended for the US subsidiary Salem Inc, one for the Austrian company Schoeller Bleckmann GmbH and two for the Indian company Tubacex Prakash Pvt Ltd). These investments will facilitate the increase in capacity at the three subsidiaries within the framework of the Strategic Plan to increase low-value-added product capacity in India, increase the installed capacity for umbilicals and instrumentation products in Austria and strengthen the Group's positioning in the US.

The main additions in 2016 related to investments in the automation and improvement of the processes of the plant at the Alava factories recognised by the Group under "Property, Plant and Equipment"; these were made for the following reasons: to increase the efficiency of various processes and the duration of the AOD converters at the steelworks, to replace the existing cooling towers and to integrate new handling machines for the new machining cell for raw materials at the tube production unit. Also, investments were made in the automation of the umbilical production process at the Austrian subsidiary and development continued on a new production process at the Italian subsidiary (EUR 9 million under "Property, Plant and Equipment in the Course of Construction", of which EUR 5 million were investments made in 2016.)

The disposals in 2017 and 2016 related mainly to idle items of fully depreciated property, plant and equipment.

At 31 December 2017 and 2016, the Group had the following investments in property, plant and equipment located abroad (in thousands of euros):

#### 2017

	Gross carrying amount	Accumulated depreciation	Accumulated valuation adjustments
Land and buildings	64,047	(25,872)	-
Plant and machinery	273,325	(181,649)	-
Other items of property, plant and equipment	8,457	(7,495)	-
Property, plant and equipment in the course of construction	9,247	-	-
<b>Total</b>	<b>354,409</b>	<b>(215,016)</b>	<b>-</b>

#### 2016

	Gross carrying amount	Accumulated depreciation	Accumulated valuation adjustments
Land and buildings	63,760	(24,981)	-
Plant and machinery	265,631	(172,326)	-
Other items of property, plant and equipment	8,817	(9,546)	-
Property, plant and equipment in the course of construction	15,834	-	-
<b>Total</b>	<b>354,042</b>	<b>(206,853)</b>	<b>-</b>

At the end of 2017 and 2016 the Group had fully depreciated items of property, plant and equipment still in use, the detail being as follows (in thousands of euros):

2017

	Gross carrying amount
Buildings	55,660
Plant and machinery	257,741
Other items of property, plant and equipment	28,151
<b>Total</b>	<b>341,452</b>

2016

	Gross carrying amount
Buildings	51,753
Plant and machinery	248,638
Other items of property, plant and equipment	28,013
<b>Total</b>	<b>328,404</b>

#### *Other disclosures*

As indicated in Note 9, at the end of 2017 and 2016 the Group held various items of property, plant and equipment under finance leases.

As a result of the impairment test conducted by the Group, the directors consider that there was no indication of impairment of the Group's other assets at 31 December 2017 or 2016.

At 31 December 2017, the amount payable by the Group to non-current asset suppliers was EUR 5,511 thousand (31 December 2016: EUR 5,606 thousand), and this amount was recognised under "Trade and Other Payables" in the accompanying consolidated statement of financial position (see Note 20).

At 2017 year-end the Group had firm property, plant and equipment purchase commitments amounting to approximately EUR 2,739 thousand (2016 year-end: EUR 2,274 thousand).

At 31 December 2017, the Group had not pledged any items of property, plant and equipment as security for mortgage loans (31 December 2016: EUR 8,324 thousand) (see Note 18). The security related to specific financing for the Austrian subsidiary which was repaid in 2017.

In December 2015, the Tubacex Group was granted a loan of EUR 65 million by the European Investment Bank to finance research projects in the period from 2015 to 2019 as part of the European Commission's Horizon 2020 framework programme. The loan was earmarked for financing a portion of the investments amounting to EUR 134 million in property, plant and equipment and intangible assets at the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelmetallrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación S.A.U. At 31 December 2017, the Group had drawn down EUR 65 million against this loan. These companies act as guarantors of this loan (see Note 18).

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2017 and 2016 these risks were adequately insured.

The Group did not hold any items of property, plant and equipment at fair value at 31 December 2017.

## **9. Leases**

### *Finance leases*

At 31 December 2017, the Group, as the lessee under finance leases, had recognised leased assets with a carrying amount of EUR 1,449 thousand (31 December 2016: EUR 1,543 thousand) under "Property, Plant and Equipment - Plant and Other Items of Property, Plant and Equipment". The agreement entered into in 2013 with the bank Caja Rural de Navarra for the acquisition of the main machine for the OCTG business line (see Note 8) gave rise to the recognition of these assets under finance lease at the end of 2017 and 2016.

At 31 December 2017 and 2016, the Group had arranged with the lessor for the following minimum lease payments (including any purchase options), based on the lease currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum finance lease payments	2017	2016
Within 1 year	155	201
Between 1 and 5 years	-	155
<b>Total</b>	<b>155</b>	<b>356</b>

### *Operating leases*

At the end of 2017 and 2016 the Group had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum operating lease payments	2017	2016
Within 1 year	299	291
Between 1 and 5 years	862	1,007
After 5 years	1,315	1,503
<b>Total</b>	<b>2,476</b>	<b>2,801</b>

The main leases giving rise to the minimum payments for the Group are as follows:

- Leases of industrial buildings, warehouses or offices where Group companies carry on their activities, and full-service leases of vehicles.
- On 14 October 2013, the Parent entered into an agreement with Suelo Industrial Marina Medio Cudeyo, 2006 S.L. for the construction of the industrial building where the Group company Tubacex Services, S.L. carries on its production activity and for the lease with a purchase option on the industrial building and the land on which it is constructed. This lease has a minimum term of 15 years from the date of delivery of the industrial building to the lessee, which is extendible for three periods of three years each, unless the lessee decides otherwise. The annual rent stipulated in the lease amounts to EUR 187,920. The purchase option established in the lease is exercisable between the first and sixth years of the lease and the agreed-upon purchase price is EUR 2,748,018. At 31 December 2017, the Parent's directors had not taken any decision on whether the purchase option would ultimately be exercised. For these reasons, the Group did not recognise any liability in relation to this lease in the accompanying consolidated statement of financial position as at 31 December 2017.

The detail of the operating lease payments recognised as an expense in 2017 and 2016 is as follows (in thousands of euros):

	2017	2016
Minimum lease payments	299	291
Contingent rents paid	-	-
<b>Total</b>	<b>299</b>	<b>291</b>

### **10. Investments in companies accounted for using the equity method**

The detail of the investments accounted for using the equity method at the end of 2017 and 2016 and of the changes therein in 2017 and 2016 is as follows:

2017

	Thousands of euros				
	Beginning balance	Share of results of companies accounted for using the equity method (1)	Liquidation	Dividends	Ending balance
Schoeller-Bleckmann Edelstahlrohr Deutschland, GmbH (Sberd)	501	5	-	(299)	207
Schoeller-Bleckmann Tube France (SBTF)	136	3	-	-	139
<b>Total</b>	<b>637</b>	<b>8</b>	<b>-</b>	<b>(299)</b>	<b>346</b>

(1) Although the TUBACEX Group exercises control over the above-mentioned companies, they were accounted for using the equity method due to their scant materiality in relation to the fair presentation of the TUBACEX Group.

2016

	Thousands of euros				
	Beginning balance	Share of results of companies accounted for using the equity method (1)	Liquidation	Dividends	Ending balance
Schoeller-Bleckmann Edelstahlrohr Deutschland, GmbH (Sberd)	473	28	-	-	501
Schoeller-Bleckmann Tube France (SBTF)	135	1	-	-	136
<b>Total</b>	<b>608</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>637</b>

(1) Although the TUBACEX Group exercises control over the above-mentioned companies, they were accounted for using the equity method due to their scant materiality in relation to the fair presentation of the TUBACEX Group.



## 11. Financial assets

The detail of "Financial Assets" in the consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
<b>Non-current:</b>		
Equity instruments	4,153	5,798
Available-for-sale financial assets	829	850
Loans to related companies (Note 26)	1,656	723
	<b>6,638</b>	<b>7,371</b>
<b>Current:</b>		
Held-for-trading financial assets measured at fair value	32,069	101,887
Other financial assets (Note 14)	15,604	2,112
	<b>47,673</b>	<b>103,999</b>

As a result of the business combination performed in Italy in 2015, the Tubacex Group acquired an ownership interest through IBF SpA in three unlisted companies, which were valued for the purchase price allocation process at EUR 8,274 thousand.

In 2016 IBF SpA sold the ownership interest in Jilin Sino Italy Nuclear Piping Components Manufacturing Co Ltd, the carrying amount of which totalled EUR 2.9 million, for EUR 3.2 million, thereby generating a gain of EUR 0.3 million, which was recognised in the consolidated statement of profit or loss for 2016. Also, in the context of this sale an agreement was entered into with the buyer of this ownership interest for the sale of technology which gave rise to income of approximately EUR 5.5 million, which were recognised under "Other Operating Income" in the accompanying consolidated statement of profit or loss (see Note 24).

At the end of 2017 and 2016 the main balances of the two companies in which IBF SpA retained ownership interests were as follows:

Company name	%	Carrying amount 2016	Carrying amount 2017	Share capital	Profit (Loss)	Shareholders' equity
C.F.F. Srl (*)	26%	2,014	400	47	(183)	762
COPROSIDER Srl (*)	25%	3,335	3,335	100	333	3,857
<b>Total</b>		<b>5,349</b>	<b>3,735</b>			

(\*) Figures from the financial statements as at 31 December 2016.

The directors of the Tubacex Group recognised an impairment loss on the ownership interest in C.F.F. Srl of EUR 1.6 million with a charge to "Finance Costs" in the accompanying statement of profit or loss based on the poor situation of the Company's business and the failure to meet the projections made when the asset was recognised.

Also, "Loans to Related Companies" included a loan of EUR 644 thousand granted to Coprosider Srl, a loan of EUR 82 thousand granted to the non-controlling shareholder of Tubacex Upstream Technologies and a loan of EUR 910 thousand granted to the non-controlling shareholder of Tubacex Awaji Thailand (Awaji Materia).

The financial assets classified as non-current available-for-sale investments relate to financial investments in medium- and long-term fixed-income investment funds. The carrying amount of the aforementioned investment funds is their fair value.

The Parent had invested a portion of the cash surplus in investment funds and at 31 December 2017 EUR 29,429 thousand (31 December 2016: EUR 100,242 thousand) were recognised under "Current Financial Assets", which generated net finance income due to changes in fair value of EUR 1,103 thousand (31 December 2016: EUR 676 thousand), which was recognised under "Finance Income" in the accompanying consolidated statement of profit or loss for the year ended 31 December 2017.

The detail of the net gains and losses on financial assets is as follows:

	Thousands of euros							
	2017				2016			
	Available-for-sale financial assets	Held-for-trading financial assets (derivatives)	Loans and receivables	Total	Available-for-sale financial assets	Held-for-trading financial assets (derivatives)	Loans and receivables	Total
Finance income applying the amortised cost method	-	-	-	-	-	-	28	28
Change in fair value	1,103	1,082	-	2,185	676	334	-	1,010
<b>Net gains/(losses) recognised in profit or loss</b>	<b>1,103</b>	<b>1,082</b>	<b>-</b>	<b>2,185</b>	<b>676</b>	<b>334</b>	<b>28</b>	<b>1,038</b>

## 12. Derivative financial instruments

The detail of the derivative financial instruments at 31 December 2017 and 2016 is as follows:

2017

	Notional amount		Thousands of euros			
			Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Current	Non-current	Current
<b>Held-for-trading derivatives</b>						
Forward sales of USD	4,800	USD	-	120	-	-
Forward sales of GBP	2,022	GBP	-	2	-	(38)
Forward purchases of USD	35,902	USD	-	4	-	(1,588)
			-	<b>126</b>	-	<b>(1,626)</b>
<b>Hedging derivatives</b>						
<i>Cash flow hedges</i>						
Interest rate swaps	76,128	Euros	-	-	(579)	(351)
Forward sales of USD	8,715	USD	-	144	-	-
Forward sales of GBP	979	GBP	-	4	-	-
Forward purchases of USD	88,876	USD	-	-	(1,365)	(3,115)
			-	<b>148</b>	<b>(1,944)</b>	<b>(3,466)</b>
			-	<b>274</b>	<b>(1,944)</b>	<b>(5,092)</b>

2016

	Notional amount		Thousands of euros			
			Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Current	Non-current	Current
<b>Held-for-trading derivatives</b>						
Forward sales of USD	10,796	USD	-	-	-	(688)
Forward sales of GBP	824	GBP	-	7	-	(9)
Forward purchases of USD	16,988	USD	138	515	-	(16)
			<b>138</b>	<b>522</b>	-	<b>(713)</b>
<b>Hedging derivatives</b>						
<i>Cash flow hedges</i>						
Interest rate swaps	100,322	Euros	-	-	(930)	(397)
Forward sales of USD	30,767	USD	-	7	-	(1,513)
Forward purchases of USD	1,155	GBP	-	12	-	-
			-	<b>19</b>	<b>(930)</b>	<b>(1,910)</b>
			<b>138</b>	<b>541</b>	<b>(930)</b>	<b>(2,623)</b>

These financial instruments are classified in accordance with the value measurement hierarchy established in IFRS 7, as they reflect other than quoted prices based on observable market data.

**a) Forward foreign currency purchase and sale contracts-**

As indicated in Note 2-c, the Group's functional currency is the euro. To manage foreign currency risk, mainly in relation to the US dollar, the Group has arranged various forward foreign currency purchase and sale contracts for its import and export transactions, respectively.

At 31 December 2017, the Group had forward foreign currency sale contracts amounting to EUR 6,354 thousand (2016: EUR 10,757 thousand) that did not qualify for hedge accounting. The notional amount of the foreign currency held for trading was USD 4,800 thousand (2016: USD 10,796 thousand) and GBP 2,022 thousand (2016: GBP 824 thousand). In all cases, these derivatives were arranged as hedges of foreign currency sales.

The detail at 31 December 2017 and 2016 of the notional amounts of forward foreign currency sale contracts, by residual maturity and currency, is as follows:

	Thousands of euros			
	2017		2016	
	US dollars	Pounds sterling	US dollars	Pounds sterling
Within 1 year	4,106	2,248	9,797	960

At 31 December 2017, the speculative forward foreign currency sale contracts gave rise to unrealised losses of EUR 30 thousand and unrealised gains of EUR 122 thousand (31 December 2016: unrealised losses of EUR 697 thousand and unrealised gains of EUR 7 thousand).

At 31 December 2016, the forward foreign currency sale contracts to which the Group applied hedge accounting gave rise to unrealised losses of EUR 1,513 thousand. At 31 December 2017, these contracts gave rise to unrealised gains of EUR 148 thousand (31 December 2016: unrealised gains of EUR 19 thousand). Since these hedges were accounted for as cash flow hedges and the forecast hedged sales had not yet been recognised in the consolidated statement of financial position at the reporting date, all the changes in value of these derivatives were recognised in equity.

Also, at 31 December 2017, the Group had entered into speculative forward foreign currency purchase contracts with a notional amount of EUR 31,358 thousand (2016: EUR 15,337 thousand). At 31 December 2017, the value of the foreign currency held for speculative purposes was USD 35,902 thousand (31 December 2016: USD 16,988 thousand). In all cases, these derivatives were arranged as hedges of foreign currency purchases.

The detail at 31 December 2017 and 2016 of the notional amounts of forward foreign currency purchase contracts, by residual maturity and currency, is as follows:

	Thousands of euros	
	US dollars	
	2017	2016
Within 1 year	31,358	15,337

At 31 December 2017, the speculative forward foreign currency purchase contracts gave rise to unrealised gains of EUR 4 thousand and unrealised losses of EUR 1,588 thousand (31 December 2016: unrealised gains of EUR 653 thousand and unrealised losses of EUR 16 thousand).

Also, at 31 December 2017, the Group had nickel purchase contracts to which future cash flow hedge accounting was applied, which give rise to unrealised losses of EUR 4,480 thousand. The notional amount of these hedges was USD 88,876 thousand (EUR 75,892 thousand) and the hedged items are two contracts to purchase nickel at set dates and prices until 2019. Since the amount and timing of the cash flows of the US dollar commodity purchases (see Note 13) are the same, this is an effective hedge. Since these hedges were accounted for as cash flow hedges and the forecast hedged purchases had not yet been recognised in the consolidated statement of financial position at the reporting date (open transactions), the changes in value of these derivatives were recognised in full in equity.

The fair values of these forward foreign currency purchase and sale contracts were estimated by discounting the cash flows on the basis of forward exchange rates available in public domain sources.

**b) Commodity futures-**

To hedge the risks of volatility in the prices of the nickel used in its production process, the Group arranges futures contracts on the price of this commodity.

At 31 December 2017 and 2016, the Group did not have any outstanding nickel futures contracts.

The fair values of these nickel swaps were estimated by discounting cash flows, taking into account the difference between the market prices of this commodity available in public domain information sources at 31 December and the corresponding guaranteed fixed price in each contract. At 31 December 2017 and 2016, the Group did not have any commodity futures contracts qualifying as hedges.

**c) Interest rate swaps-**

The Group uses fixed-for-floating interest rate swaps to manage its exposure to changes in interest rates. The detail of the swaps outstanding at 31 December 2017 and 2016 is as follows:

2017

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
10,000	16/07/17	16/07/21	0.670%
2,479	20/11/14	20/05/19	0.720%
1,149	30/09/14	30/06/19	0.355%
750	20/06/14	19/06/19	0.690%
17,500	17/07/14	17/07/19	0.520%
6,000	12/11/14	16/11/20	0.360%
10,500	01/11/17	03/05/21	0.45%
10,000	22/05/17	20/05/21	0.74%
8,750	31/03/17	31/03/21	0.755%
9,000	12/08/15	12/11/20	0.243%

2016

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
10,000	16/07/17	16/07/21	0.670%
643	20/01/13	20/07/17	0.645%
4,229	20/11/14	20/05/19	0.720%
1,892	30/09/14	30/06/19	0.355%
877	01/01/13	01/08/17	1.240%
1,250	20/06/14	19/06/19	0.690%
2,000	06/05/14	06/05/17	0.355%
1,333	27/01/13	27/07/17	0.830%
1,348	20/08/14	20/02/17	0.800%
26,250	17/07/14	17/07/19	0.520%
8,000	12/11/14	16/11/20	0.360%
10,500	01/11/17	03/05/21	0.45%
10,000	22/05/17	20/05/21	0.74%
10,000	31/03/17	31/03/21	0.755%
12,000	12/08/15	12/11/20	0.243%

**d) Cash flow hedges-**

The amount of cash flow hedges reclassified in full from equity to profit or loss and the detail of the related line items in the consolidated statement of profit or loss in which the amounts were recognised are as follows:

	Thousands of euros	
	Gains/(Losses)	
	2017	2016
Interest rate swaps:		
- Finance income/costs	(533)	(518)
Foreign currency hedges:		
- Exchange differences	(101)	15
	<b>(634)</b>	<b>(503)</b>

The finance costs arising from the interest rate swaps that expired in 2017 were recognised under "Finance Costs" in the accompanying consolidated statement of profit or loss.

As a result of its adoption of IFRS 13, the Group was required to change its valuation techniques for obtaining the fair value of its derivatives. The Group includes a credit risk adjustment in order to reflect its own risk and that of the counterparty in the fair value of the derivatives using generally accepted valuation models.

Specifically, the adjustment for credit risk was calculated by applying a technique based on simulations of expected total exposure (including both current and potential exposure) adjusted by the probability of default over time and by the loss severity (or potential loss) assigned to the Group and to each of the counterparties. The total expected exposure of the derivatives is obtained by using observable market inputs, such as interest rate, exchange rate and volatility curves based on the market conditions at the measurement date.

#### Disclosures on the fair value hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (e.g. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Upon inception, the fair value of the derivatives arranged by the Group equals their transaction price in their principal market (the retail market).

For financial reporting purposes, the fair value measurements are classified into Level 1, 2 or 3 depending on the degree to which the inputs used are observable and their importance for measuring fair value in its entirety, as described below:

- Level 1 - These inputs are based on quoted prices (unadjusted) for identical instruments traded in active markets.
- Level 2 - These inputs are based on quoted prices for similar instruments in active markets (not included in Level 1), quoted prices for identical or similar assets or liabilities in markets that are not active, and techniques based on valuation models for which all the significant inputs are observable in the market or may be corroborated by observable market data.
- Level 3 - The inputs are generally unobservable and, in general terms, they reflect estimates of the market assumptions for determining the price of the asset or liability. The unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

The Group concluded that most of the inputs used for determining the fair value of the derivative financial instruments are at Level 2 of the hierarchy, including the data used for calculating the credit risk adjustment of the Group and the counterparty. Although the Group made this determination, the credit risk adjustments used Level 3 inputs, such as the credit estimates based on credit ratings or on comparable companies in order to assess the likelihood of default by the company or the company's counterparties.

The Group assessed the significance of the credit risk adjustments in the total valuation of the derivative financial instruments and determined that they are not significant.

The application of IFRS 13 may affect the effectiveness of the hedges. However, in 2017 the hedges continued to be highly effective, with little impact on the accounting ineffectiveness that would be reflected in the consolidated statement of profit or loss.

### **13. Inventories**

The detail of "Inventories" in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Goods held for resale	13,986	11,727
Raw materials and other supplies	106,446	94,850
Work in progress and semi-finished goods	79,185	75,682
Finished goods	75,304	63,452
Advances to suppliers	1,787	561
Write-downs	(28,132)	(25,057)
	<b>248,576</b>	<b>221,213</b>

The Parent has commitments amounting to EUR 75,892 thousand to buy one of the commodities used in the production process from a supplier with which it has arranged the supply of a monthly volume in tonnes at a fixed price. In this way, the Group aims to ensure its margins in an important order (see Note 14). The arranged volume in tonnes is less than the volume in tonnes required if the aforementioned contract were to be performed normally. Also, the Group's directors have used currency forwards to hedge changes in the US dollar exchange rate, since the purchase cash flows in the aforementioned agreement are in US dollars (see Note 12-a).

In 2017 the Tubacex Group entered into an important agreement which satisfies the accounting requirements for the recognition of revenue by reference to the stage of completion (see Note 3-p), which gave rise to inventories amounting to EUR 47,194 thousand that were located at the Group's warehouses being reclassified to accounts receivable at 31 December 2017 (see Note 14).



The changes in raw materials used, other consumables and goods held for resale in 2017 and 2016 were as follows:

	Thousands of euros	
	2017	2016
<b>Raw materials, other consumables and goods held for resale used/sold-</b>		
Net purchases	263,123	259,343
Changes in inventories	11,596	8,682
	<b>274,719</b>	<b>268,025</b>

The changes in the write-downs of inventories in the accompanying consolidated statement of financial position were as follows (in thousands of euros):

2017

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	14,128	1,913	(309)	15,732
Work in progress	2,040	13	(21)	2,032
Finished goods	8,889	2,205	(726)	10,368
<b>Inventory write-downs</b>	<b>25,057</b>	<b>4,131</b>	<b>(1,056)</b>	<b>28,132</b>

2016

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	16,115	-	(1,987)	14,128
Work in progress	2,106	-	(66)	2,040
Finished goods	7,600	1,802	(513)	8,889
<b>Inventory write-downs</b>	<b>25,821</b>	<b>1,802</b>	<b>(2,565)</b>	<b>25,057</b>

Net purchases include those made in the following currencies other than the euro:

Currency	Thousands of euros	
	2017	2016
US dollar	82,013	82,417
Indian rupee	10,174	8,620

The business activities of the Indian subsidiary gave rise to an increase in purchases in Indian rupees.

#### 14. Trade and other receivables

The detail of "Trade and Other Receivables" in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Trade receivables for sales and services	77,800	65,708
Trade receivables from Group companies (Note 26)	349	602
Sundry receivables	3,188	3,806
Tax receivables (Note 22)	15,443	10,250
Current tax assets (Note 22)	1,274	2,174
	<b>98,054</b>	<b>82,540</b>
Less- Write-downs	(2,451)	(2,900)
<b>Total trade and other receivables</b>	<b>95,603</b>	<b>79,640</b>

The changes in the write-downs of trade and other receivables were as follows:

	Thousands of euros	
	2017	2016
Balance at 1 January	2,900	3,537
Write-down for uncollectibility (Note 24)	50	20
Reversals (Note 24)	(183)	(309)
Amounts derecognised	(316)	(347)
Translation differences	-	(1)
<b>Balance at 31 December</b>	<b>2,451</b>	<b>2,900</b>

The detail of the tax receivables at 31 December 2017 and 2016 is as follows (see Note 22):

	Thousands of euros	
	2017	2016
<b>Sundry tax receivables:</b>		
VAT refundable	11,304	7,904
Other items	4,139	2,346
	<b>15,443</b>	<b>10,250</b>

#### Construction contracts

In 2017 the Tubacex Group entered into an important agreement which satisfies the accounting requirements for the recognition of revenue by reference to the stage of completion (see Notes 3-p and 13). The cumulative amount of the revenue recognised and the advances received at 31 December 2017 is recognised under "Trade Receivables for Sales and Services" (see Note 3-v), the detail of which is as follows (in thousands of euros):

	31/12/17
Amounts to be billed for work performed	58,107
Advances received	(40,000)
Advances receivable (*) (Note 11)	(15,604)
<b>Total</b>	<b>2,503</b>

(\*) Under the construction contract the Group is entitled to collect this amount early, and the directors expect to receive it in the first quarter of 2018.

## **15. Cash and cash equivalents**

The detail of "Cash and Cash Equivalents" in the consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Cash on hand and at banks	107,267	43,360
	<b>107,267</b>	<b>43,360</b>

"Cash and Cash Equivalents" includes basically the Group's cash, short-term bank deposits and promissory notes with an initial maturity of three months or less. The bank accounts earn interest at market rates. There are no restrictions on the use of the balances.

## **16. Equity and shareholders' equity**

### **a) Share capital-**

At 31 December 2017 and 2016, the share capital was represented by 132,978,782 fully subscribed and paid shares of EUR 0.45 par value each.

All the shares carry the same voting and dividend rights, except for treasury shares, the voting rights of which are suspended and the dividend rights of which are attributed proportionally to the other shares. All the Parent's shares are listed on the Spanish Stock Market Interconnection System.

There are no restrictions on the transferability of the shares.

At 31 December 2017 and 2016, the shareholder Jose María Aristrain de la Cruz held an ownership interest of 11% in the Parent's share capital. Cartera Industrial Rea, which held an ownership interest of 7% of the Parent's share capital at 31 December 2016, sold its ownership interest in 2017.

### **b) Share premium-**

This reserve is unrestricted.

### **c) Revaluation reserve-**

The detail of the revaluation reserve is as follows:

	Thousands of euros	
	2017	2016
Revaluation reserve Álava Regulation 4/1997	3,763	3,763

As permitted by the applicable corporate law, at 31 December 1996 the Group revalued its property, plant and equipment.

Since the period in which the balance of this reserve could be reviewed by the tax authorities has elapsed, the balance of this account may be used, free of tax, to:

- Offset prior years' losses.
- Increase capital, once the prior years' losses in the consolidated statement of financial position have been offset and the related appropriations have been made to the legal reserve.
- Make appropriations to restricted reserves, using the unused portion of the account balance.

**d) Other reserves-**

The detail of "Other Reserves" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Legal reserve	11,968	11,968
Voluntary reserves:		
Other reserves of the Parent	46,933	47,379
Consolidated reserves	144,766	143,813
<b>Total other reserves</b>	<b>203,667</b>	<b>203,160</b>

**Legal reserve-**

Under the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

This reserve had reached the legally required minimum at 31 December 2017.

**Other reserves of the Parent-**

These consist of unrestricted voluntary reserves.

**Consolidated reserves-**

Of the total reserves of consolidated companies, EUR 36,106 thousand related to restricted reserves at 31 December 2017.

**e) Treasury shares-**

At 2017 year-end the consolidated Group companies held the following shares of the Parent:

	No. of shares	Par value (thousands of euros)	Average acquisition price (euros)	Total acquisition cost (thousands of euros)
Treasury shares at 2017 year-end	3,142,975	1,414	2.497	7,850

No changes occurred with respect to 31 December 2016.

In 2016 the Board of Directors approved two incentive plans affecting treasury shares, which were also approved by the shareholders at the Annual General Meeting in May 2016 (see Notes 3-k and 16-f).

**f) Other equity instruments-**

In the context of the long-term incentive plan (see Notes 3-k and 3-l), on 25 May 2016 the Board of Directors and the General Meeting approved:

- a programme of call options on 500,000 shares for EUR 2 each for the chief executive officer, with an exercise date of 31 March 2018.
- the grant of loans to ten members of the Management Committee for the acquisition of 1,200,000 shares for EUR 2 each and an individual limit of 120,000 shares. The loans will mature on 31 March 2018, the date on which they should be repaid in full either through a monetary payment or by delivery to the Parent of all the shares acquired in 2016. During the term of the loans the Tubacex Group will maintain a right of pledge over the shares and the borrowers will refrain from disposing of, transferring, selling or encumbering the shares acquired under the plan unless prior written consent is given by the Parent (see Note 16-e). Termination of the borrower's employment relationship at the borrower's request shall give rise to the mandatory early repayment of the loan.

These share option plans were instrumented by entering into an agreement with the chief executive officer and a set of agreements with identical characteristics with each of the ten members of the Group's Management Committee.

In order to value this plan, the Group, through an independent expert, used binomial trees (Cox, Ross and Rubinstein model). This process assumes that movements in share prices consist of a large number of small binomial movements. The model is widely used in financial practice to value transactions, with the aim of including the effect of market conditions in the valuation of equity instruments that have been granted. The main assumptions used in the valuation were as follows:

- The five-year interest rate at the valuation date was 0.031%.
- In order to determine the dividends distributed per share, it was assumed that the dividend yield would be maintained in subsequent years.
- The historical volatility of the last 260 trading sessions was used to determine share price volatility.

To determine the total cost of the plan and the cost to be charged in 2017, the Group's directors considered that:

- All the beneficiaries will meet the requirements to receive the shares.
- The vesting period will end on 31 March 2018.

In accordance with the above, the total valuation of the two plans at the grant date was estimated to be EUR 930 thousand. As described in Note 3-l, the services provided by the beneficiaries were recognised on an accrual basis by the Group under "Staff Costs", allocating the fair value of the equity instruments delivered over the term of the plan,

which led to a charge of EUR 511 thousand to "Staff Costs" in the accompanying consolidated statement of profit or loss for 2017 (see Note 25) (2016: EUR 279 thousand) and a corresponding credit to "Equity - Other Equity Instruments" in the accompanying consolidated statement of financial position as at 31 December 2017.

**g) Valuation adjustments-**

**Detail and changes-**

The detail of the accounts included in other comprehensive income and of the changes therein in 2017 and 2016 was as follows:

	Thousands of euros			
	Translation differences	Cash flow hedges	Tax effect	Net
<b>Balances at 31 December 2015</b>	<b>9,979</b>	<b>(1,060)</b>	<b>274</b>	<b>9,193</b>
Income and expense recognised in the year	1,674	(926)	259	1,007
Transfers to profit or loss	-	(503)	141	(362)
<b>Balances at 31 December 2016</b>	<b>11,653</b>	<b>(2,489)</b>	<b>674</b>	<b>9,838</b>
Income and expense recognised in the year	(8,000)	(2,441)	683	(9,758)
Transfers to profit or loss	-	(634)	178	(456)
<b>Balances at 31 December 2017</b>	<b>3,653</b>	<b>(5,564)</b>	<b>1,535</b>	<b>(376)</b>

The depreciation of the US dollar and the Indian rupee in 2017 gave rise to a decline in value of the net assets denominated in those currencies, which had an impact on equity of EUR 8,000 thousand. The tax effect relates to the cash flow hedges.

**Translation differences-**

The Group availed itself of the exemption relating to translation differences in IFRS 1, First-time Adoption of International Financial Reporting Standards and, accordingly, the reserves for translation differences included in other comprehensive income are those generated on or after 1 January 2004.

**h) Dividends and restrictions on the distribution of dividends-**

In 2016 dividends amounting to EUR 3,365 thousand were paid out of profit for 2015, as approved by the Annual General Meeting in May 2016. No dividends were distributed in 2017 and none are expected to be distributed in 2018.

The aforementioned approved dividend distributions out of the profit for 2015 respected the distribution restrictions established in the financing agreements (see Note 18).

**i) Capital management policy-**

The objectives of the Group's capital management are to safeguard its ability to continue operating as a going concern so that it can continue to provide returns to shareholders, benefit other stakeholders and maintain an optimum capital structure to reduce the cost of capital.

In order to maintain and adjust the capital structure, the Group may vary the amounts of the dividends payable to the shareholders, return capital, issue shares or sell assets to reduce debt.

In line with other groups in the industry, TUBACEX controls its capital structure on the basis of its leverage ratio. This ratio is calculated by dividing net financial debt by equity. Net debt is calculated as the total amount of current and non-current interest-bearing loans and other liabilities, less cash and cash equivalents and current financial assets.

The ratios in 2017 and 2016 were calculated by management as follows:

	Thousands of euros	
	2017	2016
Total financial debt (Note 18)	408,454	354,258
Less - Cash and cash equivalents and current financial assets (Notes 11 and 15)	(154,940)	(147,359)
<b>Net debt</b>	<b>253,514</b>	<b>206,899</b>
<b>Equity</b>	<b>281,815</b>	<b>313,560</b>
<b>Debt/equity ratio</b>	<b>90%</b>	<b>66%</b>

The debt/equity ratio increased in 2017 as a result of the increase in the investment in working capital to respond to the backlog at the end of the year and the impact on equity of the impairment losses recognised in the year (see Notes 7 and 11). The Group's aim in 2018 is to reduce the debt/equity ratio by adjusting working capital and through the positive cash flow projections for the coming year.

## **17. Provisions**

### *Long-term provisions-*

The TUBACEX Group has recognised provisions for the estimated amount of tax debts and probable or certain third-party liability arising from litigation in progress, indemnity payments or obligations of an indeterminate amount and collateral and other similar guarantees, the exact amount of which cannot be determined or whose date of payment is uncertain, since this depends on the fulfilment of certain conditions. EUR 2,250 thousand were recognised in this connection at 31 December 2017 and 2016, which was considered an appropriate amount by the directors following completion in February 2016 of the tax inspection conducted in 2015 (see Note 22-d).

Also recognised under this heading are provisions for possible environmental damage totalling EUR 540 thousand (31 December 2016: EUR 628 thousand) (see Note 29).

*Short-term provisions-*

The changes in "Short-Term Provisions" in 2017 and 2016 were as follows (in thousands of euros):

	Other employee benefits (Note 3-k)	Other short-term provisions	Total
<b>Balance at 31/12/15</b>	<b>303</b>	<b>5,414</b>	<b>5,717</b>
Charge for the year	163	1,752	1,915
Amounts used for their intended purpose	(303)	(1,284)	(1,587)
Reversals	-	(1,794)	(1,794)
<b>Balance at 31/12/16</b>	<b>163</b>	<b>4,088</b>	<b>4,251</b>
Charge for the year	-	2,136	2,136
Amounts used for their intended purpose	(163)	(447)	(610)
Reversals	-	(196)	(196)
<b>Balance at 31/12/17</b>	<b>-</b>	<b>5,581</b>	<b>5,581</b>

"Other Short-Term Provisions" includes provisions for possible contingencies relating to trading relationships totalling EUR 4,477 thousand at 31 December 2017 (31 December 2016: EUR 3,020 thousand). The amount ultimately payable will depend on the final outcome of discussions with the related customers, and the best available information for quantifying it at 31 December 2017 was used.

*Guarantees provided-*

The TUBACEX Group has provided bank guarantees amounting to EUR 131,843 thousand (2016: EUR 22,593 thousand) to secure the successful completion of certain transactions performed in the ordinary course of its business. The increase is due to the guarantee required under an important contract that was concluded in 2017 (see Notes 13 and 14). The Group's directors consider that the probability of a material liability arising as a result of these guarantees is remote.

**18. Non-current and current bank borrowings**

The detail of the related headings in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
<b>Non-current-</b>		
Bank loans	79,717	164,650
	<b>79,717</b>	<b>164,650</b>
<b>Current-</b>		
Debt instruments and other marketable securities	95,636	48,610
European Investment Bank (Note 2-h)	65,000	-
Short-term credit lines and loans	98,683	67,971
Short-term maturities of long-term loans	44,975	39,213
Discounted bills and notes	885	651
Import and export financing	22,524	31,800
Interest	1,034	1,363
	<b>328,737</b>	<b>189,608</b>



As in 2015 and 2016, the Tubacex Group launched a commercial paper issue programme through its Parent in the Alternative Fixed-Income Market (MARF), which matured in a maximum of twelve months and had a limit of EUR 100 million. EUR 95,636 thousand were payable in this connection at 31 December 2017 (31 December 2016: EUR 48,610 thousand), and this amount bears interest at approximately 0.37% (the amount payable at 31 December 2016 bore interest at approximately 0.39%). This amount was recognised under "Current Financial Liabilities - Debt Instruments and Other Marketable Securities" under "Current Liabilities" in the accompanying consolidated statement of financial position and gave rise to a borrowing cost of EUR 465 thousand (2016: EUR 285 thousand), which was recognised under "Finance Costs" in the accompanying consolidated statement of profit or loss.

In December 2015, the Tubacex Group was granted a loan of EUR 65 million by the European Investment Bank to finance research projects in the period from 2015 to 2019 as part of the European Commission's Horizon 2020 framework programme. The loan was earmarked for financing a portion of the investments amounting to EUR 134 million in property, plant and equipment and intangible assets at the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación S.A.U. At 31 December 2017, the Group had drawn down this loan, which has a maximum maturity of ten years, in full. The Group's directors consider that the obtainment of this financing is evidence of the market's confidence in the Tubacex Group's Strategic Plan. This contract is subject to a series of clauses that at 31 December 2017 were not being fulfilled and that gave rise, in accordance with generally accepted accounting policies, to the borrowings being classified as a current liability in the accompanying consolidated statement of financial position. The directors consider that in 2018 those clauses will be fulfilled once the financial debt position is reduced by adjusting the investment in working capital (which rose at year-end due to unbilled backlog in progress) and by achieving the projections regarding cash generation and results. At the date of authorisation for issue of these consolidated financial statements, the European Investment Bank had granted a waiver with new financial conditions compared to those initially negotiated that the directors expect to fulfil in the short- and medium-term and that evidence that the borrowings of EUR 65 million recognised as a current liability are not claimable (see Notes 2-h and 31).

The amount recognised for loans and other interest-bearing liabilities approximates their fair value.

The effective weighted average interest of the loans arranged with banks was approximately Euribor + 1.66% in 2017 (2016: Euribor + 1.67%).

The detail of the remaining maturities of the loans and other interest-bearing liabilities under the related agreements at 31 December and 2017 and 2016, taking into consideration the classification as a current liability of the European Investment Bank's loan pursuant to accounting regulations, is as follows:

Maturity	Thousands of euros	
	2017	2016
Within 1 year	328,737	189,608
Within 2 years	39,115	43,934
Within 3 years	25,982	52,114
Within 4 years	11,243	28,982
Within 5 years	2,377	14,242
Other	1,000	25,378
	<b>408,454</b>	<b>354,258</b>

A portion of the loans and credit facilities of the Austrian subsidiaries were secured by machinery and inventories with carrying amounts of EUR 8,324 thousand and EUR 69,653 thousand, respectively, at 31 December 2016. This loan was repaid in 2017. Also, the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edeltahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación, S.A.U. acted as guarantors of this loan from the European Investment Bank.

The Group has been granted foreign trade and other credit facilities with the following limits (in thousands of euros):

	2017		2016	
	Limit	Undrawn amount	Limit	Undrawn amount
Foreign trade credit facilities	45,760	23,236	66,250	34,450
Credit facilities	123,800	25,117	128,150	60,678
<b>Total</b>	<b>169,560</b>	<b>48,353</b>	<b>194,400</b>	<b>95,128</b>

The approximate effective weighted average interest on the credit facilities in 2017 was Euribor plus a spread of 1.21% (2016: a spread of 1.14%).

The Group has arranged certain interest rate swaps to exchange the floating rate of several of its credit facilities and loans in order to guarantee a fixed interest rate for the hedged balances (see Note 12).

#### **19. Other non-current financial liabilities**

The detail of "Other Non-Current Financial Liabilities" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Non-current- Loans repayable at long term	1,939	3,840
Other	6,192	5,305
	<b>8,131</b>	<b>9,145</b>

Loans repayable at long term relate to those granted by the Spanish Ministry of Science and Technology to several Group companies, with grace periods of between two and five years in the repayment of the principal, to finance various research and development projects at these Group companies. These loans do not bear interest.

The remaining long-term maturities of these loans under the related agreements at 31 December 2017 and 2016 were as follows:

Maturity	Thousands of euros	
	2017	2016
Within 2 years	706	1,297
Within 3 years	516	1,064
Within 4 years	669	706
Within 5 years	799	517
Other	308	2,072
	<b>2,998</b>	<b>5,656</b>
Less- Effect of discounting	<b>(1,059)</b>	<b>(1,816)</b>
	<b>1,939</b>	<b>3,840</b>

In 2017, as well as the reclassification to short term of the repayments due in 2017, approximately EUR 1.7 million were repaid.

At 31 December 2017, "Other" includes a loan granted by the Basque Finance Institute (Instituto Vasco de Finanzas) for EUR 4,573 thousand that matures in 2028 and the long-term finance lease of the industrial building where the subsidiary Tubacex Services, S.L. carries on its activity amounting to EUR 1,570 thousand (see Note 9).

## **20. Trade and other payables**

The detail of "Trade and Other Payables" at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Trade payables:		
Third parties	130,857	100,620
Investments accounted for using the equity method (Note 26)	158	187
	<b>131,015</b>	<b>100,807</b>
Other payables-		
Remuneration payable	9,659	9,884
Accrued social security taxes payable (Note 22)	2,887	2,802
Payable to public authorities (Note 22)	9,569	10,946
Short-term maturities of repayable loans	-	520
Other	12,153	8,502
	<b>34,268</b>	<b>32,654</b>
Current tax liabilities (Note 22)	-	<b>684</b>
	<b>165,283</b>	<b>134,145</b>

"Trade Payables - Third Parties" includes EUR 65 million advanced by the suppliers through a reverse factoring arrangement, although the Group's account payable was not derecognised, since the maturity date of the third-party billings coincides with the date of payment to the bank of the amount advanced to the third party (31 December 2016: EUR 44 million).

**Disclosures on the periods of payment to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 31/2014, of 3 December**

Set forth below are the disclosures required by Final Provision Two of Law 31/2014, of 3 December, which were prepared by applying the Spanish Accounting and Audit Institute Resolution of 29 January 2016 to meet the new requirements of the aforementioned Law for the first reporting period ended after its entry into force:

	<b>2017</b>	<b>2016</b>
Average period of payment to suppliers	59	38
Ratio of transactions settled	66	34
Ratio of transactions not yet settled	38	50
Total payments made	187,855	180,476
Total payments outstanding	54,152	60,584

The figures in the preceding table on payments to suppliers by the Parent and the Spanish subsidiaries refer to payments that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to "Trade and Other Payables - Payable to Suppliers" under "Current Liabilities" in the accompanying consolidated statement of financial position.

"Average period of payment to suppliers" means the period of payment or delay in payment of trade payables. This average period of payment to suppliers is calculated as the quotient whose numerator is the sum of the ratio of transactions settled multiplied by the total amount of the payments made and the ratio of transactions not yet settled multiplied by the total amount of outstanding payments, and whose denominator is the result of adding the total amount of the payments made to the total amount of the outstanding payments.

The ratio of transactions settled is calculated as the quotient whose numerator is the result of the sum of the products of multiplying the amounts paid by the number of days of payment (the number of calendar days between the end of the maximum payment period and the date of effective payment of the transaction) and whose denominator is the total amount of the payments made.

Also, the ratio of transactions not yet settled is calculated as the quotient whose numerator is the result of the sum of the products of multiplying the amount of the transactions not yet settled by the number of days in which payment has not been made (the number of calendar days between the end of the maximum payment period and the reporting date) and whose denominator is the total amount of the outstanding payments.

The maximum payment period applicable to the companies with registered office in Spain in 2015 under Law 11/2013, of 26 July, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, is 30 days (except where certain conditions established in the law are met, in which case the maximum payment period can be increased to 60 days).

## 21. Employee benefit obligations

The changes in the obligations to employees in 2017 and 2016 were as follows (in thousands of euros):

	Hand-over contract obligations (Note 3-k)	Long-term defined benefit obligations (Note 3-k)	Other long-term employee benefits (Note 3-k)	Other	Total
<b>Balances at 31 December 2015</b>	<b>994</b>	<b>7,369</b>	<b>4,761</b>	<b>427</b>	<b>13,551</b>
Reversals	-	(156)	(730)	(102)	(988)
Expense for the year (Note 25)	289	1,465	292	183	2,229
Benefits paid	(1,078)	(1,705)	(111)	-	(2,894)
Transfers to short term	(205)	-	-	-	(205)
<b>Balances at 31 December 2016</b>	<b>-</b>	<b>6,973</b>	<b>4,212</b>	<b>508</b>	<b>11,693</b>
Reversals	-	-	(2,851)	(146)	(2,997)
Expense for the year (Note 25)	-	1,498	90	270	1,858
Benefits paid	-	(1,806)	(65)	(20)	(1,891)
<b>Balances at 31 December 2017</b>	<b>-</b>	<b>6,665</b>	<b>1,386</b>	<b>612</b>	<b>8,663</b>

### *Long-term defined benefit obligations*

This heading includes certain statutory obligations to the employees of the SBER subgroup who joined the company prior to 1 January 2003 and that will arise on the date of retirement or when they leave the company for other reasons, pursuant to current legislation in Austria.

The total liability accruing on this defined benefit plan was calculated by means of accepted actuarial methods, taking into account the mortality assumptions based on the most recent tables in Austria, and amounted to EUR 6,665 thousand for 31 December 2017 (31 December 2016: EUR 6,973 thousand).

The discount rate applied was 1.5% (2016: 1.5%) and the salary increase rate assumption was 3% (2016: 2.6%).

### *Other long-term employee benefits*

As indicated in Note 3-k, on 25 March 2013 the Parent's Board of Directors approved an incentive plan for the members of the Group's Management Committee who form part of the Group's senior management (see Note 25), which includes the right to receive a multiannual bonus to be calculated as a percentage of the increase in the company's value between 31 December 2012 and 31 December 2017.

The company's value is defined on the basis of a formula the variables of which are directly linked to the achievement of the objectives of the 2013-2017 Strategic Plan.

Also included is the estimate of the accrued amounts payable in the future for certain retirement bonuses to the employees of the SBER subgroup payable upon completing 25, 35 and 40 years of service to the company and consisting of one, two and three months' salary, respectively.

Under certain circumstances, Austrian employment legislation allows employees who meet certain conditions to take partial retirement. Employees who avail themselves of this arrangement work 50% of the working day until the date of retirement and are paid 75% of their salary for a full working day, the additional 25% of the salary being borne by the Austrian social security system.

According to the directors' best estimates, the liability accrued in this connection at 31 December 2017 amounted to EUR 1,386 thousand (31 December 2016: EUR 4,212 thousand), which was recognised with a credit to "Staff Costs" in the accompanying consolidated statement of profit or loss for 2017 amounting to EUR 2,761 thousand (see Note 25) and a charge to "Non-Current Liabilities - Employee Benefit Obligations" in the accompanying consolidated statement of financial position as at 31 December 2017.

## **22. Tax matters**

At the General Meeting on 29 May 2013, the shareholders of the Parent approved the inclusion in a consolidated tax group of the Parent and certain subsidiaries located in the Basque Country and subject to Álava income tax legislation for the purpose of filing consolidated income tax returns from 1 January 2014 in accordance with Chapter VI of Title VI of Álava Income Tax Regulation 37/2013, of 13 December.

The consolidated tax group (no. 01/14/A) is made up of Tubacex, S.A., as the Parent, and the Group companies Acería de Álava, S.A.U., Tubacex Tubos Inoxidables, S.A.U., Tubacex Taylor Accesorios, S.A.U., Tubacex Services Solutions, S.A.U., Tubacoat, S.L., Red Distribuidora de Tubos y Accesorios, S.A.U., CFT Servicios Inmobiliarios, S.A.U. and Tubos Mecánicos Norte, S.A.U. In 2016 Tubacex Advanced Solutions, S.L.U., Tubacex Services Solutions Holding, S.L.U. and Tubacex Upstream Technologies, S.A. were included in the scope of consolidation and in tax group number 01/14/A from the year of incorporation, i.e. from the year beginning 1 January 2016.

In future months an amendment to the Álava Income Tax Regulation is expected to be approved which will be effective for tax periods beginning on or after 1 January 2018. At the date of these consolidated financial statements, the most important changes are expected to be:

- The introduction of a quantitative limit on the offset of tax losses of 50% of the taxable profit before offset of tax losses (at present, the only quantitative limit on the offset of tax losses is the taxable profit of taxpayer), although the time limit for offset is extended to 30 years (at present it is 15 years). These limitations will be applicable from 2018, and will apply to the tax loss carryforwards arising in years prior to the entry into force of the reform;
- The reduction of the standard tax rate from 28% to 24%, with a transitional rate of 26% applicable in 2018.
- The reduction of the quantitative limit applicable to tax credits to incentivise the performance of certain activities, excluding tax credits for research and development and technological innovation, from 45% to 35% of the net tax payable, although the time limit for their use is extended from 15 to 30 years. As in the case of the tax losses, this amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;
- The introduction of a quantitative limit of 70% of the net tax payable applicable to the use of tax credits -there was no limit prior to the reform- although the time limit for their use is extended from 15 to 30 years. Should the taxpayer take in the same income tax return tax credits affected by the 35% limit of the net tax payable and tax credits affected by the 70% limit of the net tax payable, the latter tax credits must be taken with the quantitative limit of 70% of the net tax payable after having taken the tax credits affected by the 35% limit. This amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;

- The extension of the time limit to take the double taxation tax credits from 15 to 30 years. As in the case of the other tax credits, the extension of the time limit to take these tax credits is applicable from 2018, and would also apply to double taxation tax credits reported by the taxpayer in the years prior to the entry into force of the reform. The reform has not introduced any quantitative limit on the use of double taxation tax credits and, therefore, the only limit applicable thereto will be the taxpayer's gross tax payable;
- The introduction of the obligation to make a tax prepayment of 5% of the taxable profit of the last year, the deadline for filing the tax return of which ended on 1 October of the year in progress; and
- The increase of the minimum tax rate from 13% to 17% of taxable profit (transitional rate of 15% in 2018).

Any effects arising from these changes will be recognised prospectively in the year in which they are approved.

**a) Current receivables from and payables to public authorities**

The detail of the current receivables from and payables to public authorities is as follows (in thousands of euros):

	Thousands of euros	
	2017	2016
VAT refundable (Note 14)	11,304	7,904
Other receivables (Note 14)	4,139	2,346
Current tax assets	1,274	2,174
<b>Total receivables from public authorities</b>	<b>16,717</b>	<b>12,424</b>
VAT payable	6,673	7,077
Accrued social security taxes payable	2,887	2,802
Personal income tax withholdings payable	2,000	2,559
Other payables	896	1,310
Income tax payable	-	684
<b>Total payables to public authorities</b>	<b>12,456</b>	<b>14,432</b>

**b) Reconciliation of the accounting loss to the tax loss**

The consolidated income tax expense recognised in 2017 and 2016 was as follows:

	Thousands of euros	
	2017	2016
Current tax	(13,671)	(2,905)
Deferred taxes- Origination and reversal of temporary differences	(1,304)	(1,086)
	<b>(14,975)</b>	<b>(3,991)</b>

The reconciliation of the consolidated loss before tax to the income tax benefit is as follows:

	Thousands of euros	
	2017	2016
<b>Consolidated loss before tax</b>	(39,083)	(5,554)
<b>Cumulative income tax expense at the tax rate of the Parent (28%)</b>	(10,943)	(1,555)
Permanent differences and consolidation adjustments	(2,776)	(605)
Difference due to tax rates of subsidiaries	263	1,167
Current year tax credits and tax relief	(1,304)	(1,086)
Adjustment of prior years' taxes	(215)	(1,912)
<b>Total consolidated tax expense (benefit) recognised</b>	<b>(14,975)</b>	<b>(3,991)</b>

The adjustment of prior years' taxes relates to the recognition of tax credits from 2016 in the Álava consolidated tax group.

The nature of the tax credits recognised in 2017 is as follows:

	Thousands of euros	
	2017	2016
Investments in new non-current assets and research and development	1,304	1,081
Other	-	5
	<b>1,304</b>	<b>1,086</b>



**c) Deferred tax assets and liabilities**

The detail at 31 December 2017 and 2016 of the deferred tax assets and liabilities is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Due to provisions and other items	3,327	3,682	-	-
Due to other items	4,127	3,252	(7,310)	(5,481)
Tax loss carryforwards	32,882	20,680	-	-
Unused tax credits and tax relief	28,669	26,473	-	-
Revaluation of assets (Note 2-f)	-	-	(9,338)	(11,088)
	69,005	54,087	(16,648)	(16,569)
Derivative financial instruments	1,515	795	(41)	(5)
	<b>70,520</b>	<b>54,882</b>	<b>(16,689)</b>	<b>(16,574)</b>

In recognising deferred tax assets the Group bears in mind the following:

- The Group considers it more than likely that sufficient profits will be made in the future to enable it to offset the tax loss carryforwards recognised and, in this connection, the plan drawn up by the Group forecasts an increase in productivity, in sales volumes and, accordingly, in the profitability of the Group's core business. The Group will go ahead with the strategic investments envisaged in its 2013-2017 Strategic Plan (see Note 2-f.), with the consolidation of new high-value-added products in the oil, gas, electricity production and nuclear energy industries, which ensure a highly robust competitive position, now that the international crisis has been overcome.
- The business plan used by the Group to make the estimates that justify and support the recoverability of its deferred tax assets is in line with the market scenario and the specific features of the business. The outlook, by tax business unit, would be as follows:
  - The entrance of an important order for companies filing consolidated tax returns under the Álava income tax regulation will contribute to the recoverability of tax assets recognised by that consolidated tax group (31 December 2017: EUR 45 million).
  - In turn, there is no time limit for the recovery of the tax assets generated in Austria (31 December 2017: EUR 15 million), the recovery of which is linked to compliance with the Industrial Plan explained in Note 7.
  - The tax assets generated in Italy (31 December 2017: EUR 5 million) are expected to be recovered in a short time horizon, based on the company's history of obtaining taxable profit and the Group's outlook for this component.
- Based on the foregoing, Group management considers that the recognition of these tax assets is justified and that they will be used in a period not exceeding ten years or, in any case, within the statutory time periods. The Group's directors consider this criterion to be appropriate. Also, the entry into force of new developments in the territorial tax legislation described above is not expected to have an impact on the recoverability of the deferred tax assets of the Álava consolidated tax group.

The detail, by type, of the changes in deferred tax assets and liabilities recognised against the income tax benefit/expense in the consolidated statement of profit or loss, is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Due to provisions and other items	(355)	243	-	-
Due to other items	875	824	(1,829)	(405)
Tax loss carryforwards	12,202	333	-	-
Unused tax credits and tax relief	2,196	1,569	-	-
Revaluation of assets included in the scope of consolidation (Note 2-f)	-	-	1,750	1,154
<b>Total</b>	<b>14,464</b>	<b>2,969</b>	<b>(79)</b>	<b>749</b>

The most significant increase arose due to the losses incurred in the Álava consolidated tax group as a result of the significant impairment losses recognised in the year (tax asset of EUR 6,440 thousand generated) and the operating losses of the Austrian and Italian components which gave rise to tax loss carryforwards recognised under "Deferred Tax Assets" amounting to EUR 3,463 thousand and EUR 2,638 thousand, respectively. Also, the deferred tax liabilities relating to obligations to employees decreased mainly as a result of exchange rate fluctuations amounting to EUR 483 thousand (2016: an increase of EUR 345 thousand).

The decrease in "Due to Obligations to Employees" was a result of the payments made in relation to the liabilities disclosed in Note 21.

Also, at 31 December 2015, the deferred tax liabilities resulted from the revaluation of the assets arising from the purchase price allocation of IBF, S.p.A., with a corresponding deferred tax liability of EUR 13,816 thousand and a reversal of EUR 626 thousand in 2017 based on the depreciation and amortisation charge for the year (2016: EUR 1,154 thousand). Also, the impairment losses recognised on intangible assets due to the agreement with the strategic customer (see Note 7) and the impairment of the financial asset at C.F.F. Srl (see Note 11) gave rise to the reversal of an additional amount of the deferred tax liabilities totalling EUR 672 thousand and EUR 452 thousand, respectively, at 31 December 2017.

Lastly, the recognition at consolidated level of the construction contract by reference to the stage of completion (see Notes 13 and 14), gave rise to a tax liability of EUR 2.2 million.

### *Tax loss carryforwards*

The detail of the tax loss carryforwards recognised in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016 is as follows:

Year incurred	2017	2016
2009	402	741
2010	4,385	4,385
2011	4,482	4,482
2012	535	535
2013	950	950
2015	3,749	3,749
2016	5,838	5,838
2017	12,541	-
	<b>32,882</b>	<b>20,680</b>

Of the total tax loss carryforwards, EUR 7 million were incurred at Álava companies prior to forming part of the consolidated tax group the last year for offset of which is 2028, and EUR 6 million were incurred in the consolidated tax group in 2017 the last year for offset of which is 2031. Also, the Austrian subsidiary has recognised EUR 15 million of tax loss carryforwards the recovery of which is not subject to any time limit under the tax legislation of that country. Lastly, the Italian subsidiary has incurred EUR 4 million of tax loss carryforwards in the last two years.

#### *Unused tax credits and tax relief*

The detail of the tax credits and tax relief recognised in the accompanying consolidated statements of financial position as at 31 December 2017 and 2016, all of which were generated at the consolidated tax group in Álava, is as follows:

Year generated	2017	2016	Last year for deduction
2001	12	12	2028
2002	11	245	2028
2003	1,143	1,143	2028
2004	1,039	1,039	2028
2005	1,258	1,258	2028
2006	650	650	2028
2007	710	710	2028
2008	940	940	2028
2009	2,028	2,030	2028
2010	2,632	2,605	2028
2011	4,002	3,960	2028
2012	2,997	2,853	2028
2013	4,701	4,528	2028
2014	1,032	717	2029
2015	2,697	2,697	2030
2016	1,513	1,086	2031
2017	1,304	-	2032
	<b>28,669</b>	<b>26,473</b>	

The tax credits generated prior to 2013 (EUR 21,973 thousand) must be recovered on an individual basis by each company that generated them prior to joining the consolidated tax group. Of these tax credits, EUR 8,218 thousand relate to double taxation tax credits and EUR 9,717 thousand to tax credits with a limit.

The total amount of current and deferred income tax, relating to items directly charged or credited to other comprehensive income in 2017 and 2016, is as follows:

	Thousands of euros	
	2017	2016
Cash flow hedges (Note 12)	861	400

#### **d) Years open for review and tax audits**

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2017 year-end part of the Group had 2012 and subsequent years open for review by the tax authorities for income tax, VAT and direct personal income tax withholdings from residents, and the last four years open for all other taxes applicable to it. All the tax credits and tax losses arising in prior years may be reviewed with a ten year statute-of-limitations when they are used in any of the years

open for review. However, the taxes for the years of the companies that were subject to the tax audit that was completed in February 2016 are not open for review. The following taxes were subject to the audit:

- Income tax, VAT, and direct personal income tax withholdings from residents for 2010 to 2013.
- Non-statute-barred taxable events relating to non-resident income tax withholdings and transfer tax.

The Group's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying consolidated financial statements.

Pursuant to the income tax legislation in Álava where the Parent is domiciled, if under the applicable rules for calculating the tax base the latter is negative, its amount may be offset without any time limit in Álava and Vizcaya (18 years initially and successively after the year in which the loss was incurred at companies with registered offices in other parts of Spain except for Guipúzcoa and Navarre), for which the amount may be apportioned in the proportion deemed fit. The tax loss will be offset when the income tax return is filed, without prejudice to the tax authorities' inspection powers. However, with effect from 1 January 2014, on the approval of Álava Income Tax Regulation 37/2013, of 13 December, a 15-year time limit was established for offsetting tax losses (those generated both prior and subsequent to the date of entry into force of the Regulation). The Group's directors consider that this tax legislation does not have an impact on the recoverability of the tax loss and tax credit carryforwards that it had recognised at 31 December 2017, since it estimates their recovery within ten years, in accordance with current accounting legislation.

The legislation for the settlement of 2016 income tax applicable to Tubacex, S.A., Acería de Álava, S.A.U., Comercial de Tubos y Accesorios Especiales, S.A.U., Tubacex Taylor Accesorios, S.A.U., Tubacex Tubos Inoxidables, S.A.U., Tubos Mecánicos Norte, S.A.U. Tubacex Advance Solutions S.L.U., Tubacex Services Solutions Holding S.L.U. and Tubacex Upstream S.A. is Álava Regulation 24/1996, of 5 July, which was in force at 31 December 2016, despite the various appeals filed in this connection, on which a final decision has not yet been issued.

## **23. Earnings per share**

### **a) Basic earnings per share-**

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to the Parent's shareholders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

	2017	2016
Earnings attributable to the Parent's ordinary shareholders	(19,710)	507
Weighted average number of ordinary shares outstanding (Note 16)	129,835,807	129,835,807
Basic earnings per share (euros)	(0.1518)	0.0039

The average number of ordinary shares outstanding was calculated as follows:

Ordinary shares outstanding at 1 January 2017 and 2016	132,978,782
Effect of treasury shares (Note 16)	(3,142,975)
<b>Weighted average number of ordinary shares outstanding at 31 December 2017 and 2016</b>	<b>129,835,807</b>

### **b) Diluted earnings per share-**

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all the dilutive potential ordinary shares. The Parent does not have any dilutive potential ordinary shares.

## **24. Other operating income and expenses**

The detail of "Other Operating Income" in the accompanying consolidated statements of profit or loss for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Grants related to income	25	979
Transfer of grants to profit or loss (Note 3-a)	477	1,020
Other income	6,003	11,133
	<b>6,505</b>	<b>13,132</b>

In 2016, "Other Income" included, inter alia, the sale of technology to Jilin Sino Italy Nuclear Piping Components Manufacturing Co Ltd for EUR 5.9 million (see Note 11) and the sale of land by the subsidiary Tubacex Taylor Accesorios, S.A. (see Note 8) and works of art by Tubacex, S.A. (see Note 7), which generated income of EUR 0.8 million.

The detail of "Other Operating Expenses" in the accompanying consolidated statements of profit or loss for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Operating lease expenses	2,061	1,907
Repair and upkeep expenses	17,923	16,232
Independent professional services	9,776	8,806
Transport	13,613	10,488
Insurance premiums	3,039	2,652
Utilities	32,712	38,043
Taxes other than income tax	662	521
Other expenses	19,704	18,332
Change in operating allowances (Note 14)	(133)	(289)
	<b>99,357</b>	<b>96,692</b>

## 25. Staff costs

The detail of "Staff Costs" in 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Wages, salaries and similar expenses	89,204	87,813
Contributions to pension plans	1,376	1,822
Social security costs	30,154	28,921
Other employee benefit costs	3,471	3,287
Provisions for employee benefits and long-term incentive plan (Notes 16-f and 21)	(2,761)	(300)
	<b>121,444</b>	<b>121,543</b>

The average number of Group employees, by professional category, in 2017 and 2016 was as follows:

Professional category	2017	2016
Senior executives	10	10
Line personnel and middle management	242	231
Clerical staff	517	423
Manual workers	1,545	1,553
<b>Total</b>	<b>2,314</b>	<b>2,217</b>

Also, the distribution of the workforce, by gender and category, at the end of 2017 and 2016 was as follows:

Professional category	2017		2016	
	Men	Women	Men	Women
Senior executives	10	-	10	-
Graduates	116	50	107	35
Line personnel and middle management	151	35	145	37
Clerical staff	333	115	250	111
Manual workers	1,480	117	1,505	75
<b>Total</b>	<b>2,090</b>	<b>317</b>	<b>2,017</b>	<b>258</b>

At 31 December 2017, the Parent's Board of Directors comprised two women and nine men (31 December 2016: two women and ten men).

At 31 December 2017, the Group does not have any disabled employees.

## **26. Related party transactions and balances**

### **Related party transactions**

The detail of the transactions with related parties in 2017 and 2016 the effects of which were not eliminated on consolidation (see Note 10) is as follows:

2017

	Revenue	Procurements	Other operating expenses
<b>Schoeller-Bleckmann Group</b>	-	-	917
<b>CFF SRL</b>	16	-	14
<b>Coprosider</b>	936	147	11
<b>Frontier Solutions</b>	-	-	1,207
<b>Prakash Pvt Ltd</b>	504	-	-
	<b>1,456</b>	<b>147</b>	<b>2,149</b>

2016

	Revenue	Procurements	Other operating expenses
<b>Schoeller-Bleckmann Group</b>	-	-	1,713
<b>CFF SRL</b>	16	146	-
<b>Coprosider</b>	1,430	303	-
<b>Frontier Solutions</b>	-	-	1,166
<b>Prakash Pvt Ltd</b>	1,386	-	-
	<b>2,832</b>	<b>449</b>	<b>2,879</b>



### **Related party balances**

The detail of the related party balances in the consolidated statements of financial position as at 31 December 2017 and 2016 is as follows (in thousands of euros):

2017

	Balances receivable		Balances payable
	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
Schoeller-Bleckmann Group	-	285	(138)
CFF SRL	-	5	(18)
Coprosider	643	59	(2)
Frontier Solutions	82	-	-
Awaji Materia	910	-	-
Other	21	-	-
	<b>1,656</b>	<b>349</b>	<b>(158)</b>

2016

	Balances receivable		Balances payable
	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
Schoeller-Bleckmann Group	-	8	(156)
CFF SRL	-	5	(18)
Coprosider	643	589	(13)
Frontier Solutions	80	-	-
	<b>723</b>	<b>602</b>	<b>(187)</b>

Also, at 31 December 2017, there was a balance receivable from Prakash Steelage Pvt Ltd (a company with a non-controlling interest in Tubacex Prakash India Pvt Ltd) of EUR 2,181 thousand (31 December 2016: EUR 587 thousand) relating to an advance for the purchase of land.

## **27. Remuneration of executives**

The remuneration earned by the key executives in the years ended 31 December 2017 and 2016 was as follows:

	Thousands of euros	
	2017	2016
Current employee remuneration, executives	2,220	2,053
Post-employment benefits	129	136
	<b>2,349</b>	<b>2,189</b>

Also, as a result of the introduction of a long-term incentive plan for the senior executives approved by the General Meeting on 25 May 2016 (see Notes 3-k, 3-l, 16 and 21), the executives earned EUR 511 thousand in relation to the share option plan. A provision of EUR 2.7 million was reversed in connection with the incentive plan (see Notes 3-l. and 21). At 31 December 2017 and 2016, the Group's senior executives did not have any balances relating to advances or loans. "Post-Employment Benefits" relate mainly to contributions to a defined contribution plan at an employee benefit entity (EPSV).

At 31 December 2017, an interest-free loan of USD 50 thousand which matures in two years had been granted to a senior executive.

## **28. Disclosures relating to the Parent's directors**

### ***a) Remuneration of and balances with the Parent's directors-***

In 2017 the members of the Board of Directors earned remuneration amounting to EUR 853 thousand (2016: EUR 911 thousand) in the form of fixed fees and fees for attending the Board meetings.

These amounts do not include in any case the additional remuneration earned by directors who perform representative or executive tasks, which in 2017 amounted to EUR 752 thousand (2016: EUR 676 thousand), of which EUR 33 thousand related to post-employment benefits (primarily contributions to a defined contribution plan at an employee benefit entity) (2016: EUR 33 thousand).

Lastly, in 2017, as in 2016, the members of the Board of Directors did not earn any attendance fees and bylaw-stipulated directors' emoluments in relation to directorships of other consolidated Group companies.

At 31 December 2017 and 2016, the directors did not have any balances relating to advances or loans from the Group.

At 31 December 2017 and 2016, the Group did not have any pension or life insurance obligations to the former or current members of the Parent's Board of Directors, and it had not assumed any obligations in the form of guarantees provided on their behalf.

The insurance premium of EUR 22 thousand in 2017 (2016: EUR 22 thousand) relates to the directors' third-party liability insurance policy.

**b) Transactions performed outside the normal course of business or not on an arm's length basis by the Parent's directors-**

In 2017 the Parent's directors did not perform any transactions with the Company or the Group companies that were outside the normal course of business or were not on an arm's length basis.

**c) Ownership interests and positions held in other companies by the Parent's directors and persons related to them-**

At the end of 2017, none of the members of the Board of Directors of Tubacex, S.A., or individuals related to them, as provided for in the Spanish Limited Liability Companies Law, had entered into relationships with other companies which, due to their activities, were in conflict with their or the Parent's interests, and neither were the Board of Directors or the other directors informed of any situation of conflict of interest in accordance with Article 229 of the aforementioned law. Accordingly, these consolidated financial statements include no disclosures in this connection.

**29. Information on the environment**

The Group's operations are governed by the laws on environmental protection ("environmental laws") and workers' safety and health ("occupational safety laws"). The Group considers that such laws are substantially complied with and it also has procedures in place aimed at fostering and ensuring compliance.

In the year ended 31 December 2017, the Group made investments for a net amount of approximately EUR 2,422 thousand (2016: EUR 2,528 thousand) and incurred expenses of EUR 2,091 thousand (2016: EUR 2,100 thousand) in environmental protection, consisting mainly of the removal of acids, repairs and upkeep, as well as advisory and audit services provided by independent professionals.

The Group did not receive any grants related to environmental protection in 2017 or 2016.

At 31 December 2017, except for a provision totalling EUR 540 thousand recognised under "Long-Term Provisions" in the accompanying consolidated statement of financial position (2016: EUR 628 thousand) relating to one of the subsidiaries domiciled in the US to cover the risk of water pollution (see Note 17), the amount of which was appraised by an independent valuer, the Group had not recognised any other provisions for possible environmental risks, since the directors consider that there are no material contingencies relating to possible lawsuits, indemnification or similar circumstances.

### **30. Fees paid to auditors**

In 2017 the fees for financial audit and other services provided by the auditor of the Group's consolidated financial statements, Deloitte, S.L., or by firms in the Deloitte organisation, and the fees billed by the auditors of the separate financial statements of the consolidated companies, and by companies related to these auditors as a result of a relationship of control, common ownership or common management, were as follows, without regard to when they are billed (in thousands of euros):

	2017	2016
Audit services	376	370
Other attest services	38	28
<b>Total audit and related services</b>	<b>414</b>	<b>398</b>
Tax advisory services	124	125
Other services	-	50
<b>Total audit and related services</b>	<b>538</b>	<b>573</b>

Also, the fees billed by other auditors for audit services in 2017 amounted to EUR 58 thousand (2016: EUR 95 thousand).

### **31. Events after the reporting period**

At the date of authorisation for issue of these consolidated financial statements, the European Investment Bank had granted a waiver with new financial conditions compared to those initially negotiated that the directors expect to be fulfilled in the short- and medium-term and that evidence that the borrowings of EUR 65 million recognised as a current liability are not claimable (see Notes 2-h and 18).

### **32. Explanation added for translation to English**

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

TUBACEX, S.A. AND SUBSIDIARIES

INFORMATION RELATING TO THE SUBSIDIARIES IN THE YEAR ENDED 31 DECEMBER 2017

Company	Location	Line of business	Auditor	Percentage of ownership			Thousands of euros				Total shareholders' equity	
				Direct	Indirect	Total	Share capital	Reserves and other equity items	Profit (Loss)	Interim dividend		Profit (Loss) from operations
Aceria de Alava, S.A.U. Tubacex Services Solutions Holding, S.L.U. Tubacex Services Solutions, S.A.U. Tubos Mecánicos, S.A.U. (subgroup)	Álava (Spain) Álava (Spain) Álava (Spain) Barcelona (Spain)	Manufacture of steel Marketing of tubes Manufacture and marketing of carbon steel tubes Marketing of carbon steel tubes	Deloitte Deloitte Deloitte Deloitte	99.99 100.00 - - 100.00	- - 100.00 100.00	99.99 100.00 100.00 100.00	7,300 31,183 1,142 5,437	42,901 (10) 8,023 22,601	3,946 (19) 780 2,110	- - - -	5,694 34,055 9,945 30,147	
Tubos Mecánicos Norte, S.A.U. Tubacex America, Inc. Metaux Inox Services, S.A.S. Tubacex India Pvt Ltd Tubacex Services Solutions Austria GmbH Tubacex Services Solutions Do Brasil Participacoes Ltda CFT Servicios Inmobiliarios, S.A.U. Red Distribuidora de Tubos y Accesorios, S.A.U. (R.T.A.) Schoeller - Bleckmann Edelstahlrohr Immobilien AG Schoeller - Bleckmann Edelstahlrohr AG (subgroup)	Álava (Spain) Houston (US) Soissons (France) India Ternitz (Austria) Sao Paulo (Brazil) Álava (Spain) Álava (Spain) Ternitz (Austria) Ternitz (Austria)	Marketing of tubes Marketing of tubes Marketing Marketing of tubes Marketing of tubes Marketing of tubes Property development Manufacture and marketing of tubes	n/a Deloitte n/a n/a n/a n/a Deloitte Deloitte	- - - 100.00 50.00 100.00 - 100.00 100.00	- 100.00 100.00 - 50.00 100.00 - 100.00 100.00	100.00 100.00 100.00 100.00 100.00 100.00 100.00 100.00	1 500 550 35 28 60 76 70 3,500	3,620 2,089 (125) (77) 72 1,059 4,708 4,186 25,916	(925) 369 (96) 2,417 (615) - 130 326 96	- - - - - - - - -	(835) 2,958 296 2,488 2,375 (515) 1,159 4,877 4,582 32,945	
Schoeller - Bleckmann Technisches Service GmbH Schoeller - Bleckmann Technisches Service GmbH & Co. KG Schoeller - Bleckmann Edelstahlrohr Deutschland GmbH Schoeller - Bleckmann Tube France Salem Inc.	Ternitz (Austria) Ternitz (Austria) Düsseldorf (Germany) Paris (France) Pennsylvania (US)	Technical assistance services Technical assistance services Marketing of tubes Manufacture of tubes	Deloitte Deloitte Deloitte Deloitte Grossman Yanek & Ford	- - - - - - -	- 100.00 100.00 100.00 100.00	100.00 100.00 100.00 100.00 100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup	1,051	1,051	-	(376)	42,803
Tubacex Taylor Accesorios, S.A.U. Tubacex Tubos Inoxidables, S.A.U. Tubacex Innovación, AIE Tubacoat, S.L.	Álava (Spain) Álava (Spain) Vizcaya (Spain) Vizcaya (Spain)	Manufacture of components Manufacture and marketing of tubes Industrial development and marketing of long steel products	Deloitte Deloitte n/a n/a	100.00 100.00 91.67 100.00	- - 8.33 -	100.00 100.00 100.00 100.00	8,891 15,028 6 30	5,160 48,974 (882) (415)	(1,135) (2,931) 849 (46)	- - - -	(1,870) (5,197) 974 (16)	12,916 61,071 (27) 142
Tubacex Services, S.L. IBF, S.p.A. Tubacex Awaji Thailand Tubacex Prakash India Pvt Ltd Tubacex Upstream Technologies, S.A. Tubacex Advance Solutions, S.L.U. Tubacex Europe Tubacex Logistics, S.A.U. Tubacex Italia	Cantabria (Spain) Italy Thailand India Vizcaya (Spain) Vizcaya (Spain) The Netherlands Leioa (Vizcaya) Milan (Italy)	Manufacture and marketing of special steel tubes Manufacture of high-end fittings Manufacture of fittings and marketing of special steel tubes Manufacture and marketing of special steel tubes Marketing of tubes Transport and logistics Marketing of tubes	Deloitte Deloitte n/a Deloitte n/a n/a n/a n/a n/a	81.00 65.00 67.53 80.000 100.00 70.00 100.00	- - 40 -	81.00 65.00 40 67.53 80.000 100.00 70.00 100.00	3,704 15,000 4,684 1,413 1,000 3 16 60 93	2,357 19,590 (35) 35,544 (192) -	(424) (8,225) (110) 607 105 (1) 46 (63)	- - - - - - -	(357) (8,750) (110) 810 (392) (1) 56 63	5,720 26,164 4,539 37,564 913 2 133 123 217

This Appendix is an integral part of Note 1 to the consolidated financial statements for 2017 and should be read in conjunction therewith.

TUBACEX, S.A. AND SUBSIDIARIES

INFORMATION RELATING TO THE SUBSIDIARIES IN THE YEAR ENDED 31 December 2016

Company	Location	Line of business	Auditor	Percentage of ownership			Thousands of euros					
				Direct	Indirect	Total	Share capital	Reserves and other equity items	Profit (Loss)	Interim dividend	Profit (Loss) from operations	Total shareholders' equity
Acería de Álava, S.A.U. Tubacex Services Solutions Holding, S.L.U. Comercial de Tubos y Accesorios Especiales, S.A.U. Tubos Mecánicos, S.A.U. (subgroup)	Álava (Spain) Álava (Spain) Álava (Spain) Barcelona (Spain)	Manufacture of steel Marketing of tubes Marketing of tubes Manufacture and marketing of carbon steel tubes Marketing of carbon steel tubes	Deloitte Deloitte Deloitte Deloitte	99.99 100.00 - - 100.00	- - 100.00 100.00	99.99 100.00 100.00 100.00	7,300 31,183 1,142 5,437	39,598 - 8,131 21,262	6,501 (5) (212) 1,772	- - - -	8,445 (5) 179 1,688	53,399 31,178 9,061 28,471
Tubos Mecánicos Norte, S.A.U. Tubacex America, Inc. Metaux Inox Services, S.A.S.	Álava (Spain) Houston (US) Soissons (France)	Marketing of carbon steel tubes Marketing of tubes Marketing of tubes	Deloitte n/a KPMG	- - - 100.00	- 100.00 100.00	100.00 100.00 100.00	1 4,871 2,071	- - -	(814) 18	- -	(1,003) 68	4,058 2,589
Tubacex India Pvt Ltd CFT Servicios Inmobiliarios, S.A.U. Red Distribuidora de Tubos y Accesorios, S.A.U. (R.T.A.) Schoeller - Bleckmann Edelstahlrohr Immobilien AG Schoeller - Bleckmann Edelstahlrohr AG (subgroup)	India Álava (Spain) Álava (Spain) Termitz (Austria) Termitz (Austria)	Marketing Marketing of tubes Marketing of tubes Property development Manufacture and marketing of tubes	n/a n/a n/a Deloitte Deloitte	- 100.00 100.00 100.00 100.00	- - - - -	100.00 100.00 100.00 100.00	550 60 76 70 3,500	(302) 1,099 4,615 3,987 39,594	202 - 92 190 (13,447)	- - - -	202 - 74 184 (16,178)	450 1,159 4,783 4,257 29,647
Schoeller - Bleckmann Technisches Service GmbH Schoeller - Bleckmann Technisches Service GmbH & Co. KG Schoeller - Bleckmann Edelstahlrohr Deutschland GmbH Schoeller - Bleckmann Tube France Salem Inc.	Termitz (Austria) Termitz (Austria) Düsseldorf (Germany) Paris (France) Pennsylvania (US)	Technical assistance services Technical assistance services Marketing of tubes Marketing of tubes Manufacture of tubes	Deloitte Deloitte Deloitte Grossman Yanak & Ford	- - - - -	100.00 100.00	100.00 100.00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup 18,093	- -	- -	- -	(1,453)	47,484
Tubacex Taylor Accesorios, S.A.U. Tubacex Tubos Inoxidables, S.A.U. Tubacex Innovación, AIE Tubacoat, S.L.	Álava (Spain) Álava (Spain) Álava (Spain) Vizcaya (Spain)	Manufacture of components Manufacture and marketing of tubes Innovation Industrial development and marketing of long steel products	Deloitte Deloitte n/a n/a	100.00 100.00 91.67 100.00	- -	100.00 100.00 100.00 100.00	8,891 15,028 6 30	6,226 34,753 (1,323) (162)	(933) 13,250 441 (253)	- -	(959) 17,241 441 (340)	14,184 63,032 (876) (385)
Tubacex Services, S.L. IBF, S.p.A.	Cantabria (Spain) Italy	Manufacture and marketing of special steel tubes Marketing of special steel tubes	n/a Deloitte	81.00 65.00	- -	81.00 65.00	3,704 15,000	2,716 22,662	(427) (3,037)	- -	(348) (2,828)	5,993 34,625
Tubacex Prakash India Pvt Ltd Tubacex Upstream Technologies, S.A.	India Vizcaya (Spain)	Manufacture and marketing of special steel tubes Marketing of special steel tubes	Deloitte n/a	67.53 80.000	- -	67.53 80.000	1,413 1,000	36,517 -	628 (191)	- -	889 (266)	38,558 809
Tubacex Advances Solutions, S.L.U. Tubacex Services Solutions Austria GmbH Tubacex Services Solutions Do Brasil Participacoes Ltda Tubacex Europe Tubacex Italia	Vizcaya (Spain) Termitz (Austria) Sao Paulo (Brazil) The Netherlands Milan (Italy)	Marketing of tubes Marketing of tubes Marketing of tubes Marketing of tubes Marketing of tubes	n/a n/a n/a n/a n/a	100.00 100.00 50.00 100.00 100.00	- - 50.00 -	100.00 100.00 100.00 100.00	3 35 28 11 93	- - (7) 26	(1) (77) 16 65 98	- -	(1) (74) 7 65 98	2 (42) 46 69 217

This Appendix is an integral part of Note 1 to the consolidated financial statements for 2016 and should be read in conjunction therewith.

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

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

### **Consolidated Directors' Report for the year ended 31 December 2017**

In 2017 the global economy maintained a strong growth dynamic, with indicators continuing to forecast an acceleration of global activity. This growth is characterised not only by its robustness but also by a greater degree of uniformity between countries than seen in previous quarters.

Raw material prices have undergone a strong upward surge since June, which has offset the decline accumulated over the first half of the year. By way of illustration, the price of nickel, a benchmark in our industry, closed the year at USD 12,305 per tonne; a 21.9% gain on its price at the end of 2016. In terms of average prices, the average LME nickel price was USD 10,459 per tonne; 8.4% higher than the average price in 2016.

The other two alloying elements with a significant weight in the Group's procurements for the manufacture of stainless steel are molybdenum and chromium, both of which also rose in price in the second half of the year. The molybdenum price and chromium price at 2017 year-end were 40.6% and 26.4% higher than at 2016 year-end, respectively.

The price of oil, following poor performance in the first half of the year, has also seen a major upturn since June. Brent Crude closed the year at USD 66.87; 17.7% higher than at 2016 year-end.

Despite this upturn in the price of raw materials, the market in which TUBACEX sells the majority of its products and services has remained very depressed for the third consecutive year. Final demand was very low in practically all products and regions. However, despite facing an extremely weak market, TUBACEX's strong positioning and increased market share in higher value-added products have allowed it to win significant projects, partially offsetting the poor market situation. The Group currently has a record premium product portfolio worth EUR 700 million, which affords it unprecedented visibility.

Entering 2018, the stabilisation of the price of oil at more normal levels, the increase in the price of raw materials and the reactivation of projects that had been halted in recent years signal the start of the Group's recovery. While it should be noted that this recovery will take time to translate into increased demand for TUBACEX products, the record backlog indicates a substantial increase in profit in 2018, starting in the first quarter.

## 1. GROUP BUSINESS PERFORMANCE IN 2017

To provide a detailed analysis of the performance of the main business variables in 2017, the changes in the main headings in the consolidated statement of profit or loss are examined below, together with the most significant events relating to the Group's financial, commercial and industrial activity.

- 1.1 Analysis of the Group's consolidated statement of profit or loss.
- 1.2 Financial activity.
- 1.3 Risk management policy.
- 1.4 Commercial activity.
- 1.5 Industrial activity.
- 1.6 Strategic Plan.
- 1.7 Competitiveness plan.

### **1.1 Analysis of the Group's statement of profit or loss**

For comparison purposes, the main headings of the consolidated statements of profit or loss for 2017, 2016 and 2015 (in millions of euros) are discussed below.

	%		%		%	
	2017		2016		2015	
<i>Revenue</i>	490.36	100.00	494.03	100.00	533.42	100.00
<i>Other income</i>	10.72	2.19	17.92	3.63	8.75	1.64
<i>Changes in inventories</i>	20.38	4.16	9.26	1.87	-16.01	-3.00
<b><i>Total operating amount</i></b>	<b>521.46</b>	<b>106.34</b>	<b>521.21</b>	<b>105.50</b>	<b>526.16</b>	<b>98.64</b>
<i>Procurements and purchases</i>	-274.72	-56.02	-268.03	-54.25	-280.46	-52.58
<i>Staff costs</i>	-121.44	-24.77	-121.54	-24.60	-124.14	-23.27
<i>External and operating expenses</i>	-99.36	-20.26	-96.69	-19.57	-88.55	-16.60
<i>Gains on bargain purchases arising from business combinations</i>	0.0	0.00	0.0	0.00	15.93	2.99
<b><i>Gross profit from operations</i></b>	<b>25.94</b>	<b>5.29</b>	<b>34.95</b>	<b>7.07</b>	<b>48.94</b>	<b>9.17</b>
<i>Depreciation and amortisation charge and impairment losses</i>	-54.19	-11.07	-32.43	-6.56	-33.37	-6.26
<b><i>Net profit from operations</i></b>	<b>-28.25</b>	<b>-5.78</b>	<b>2.52</b>	<b>0.51</b>	<b>15.56</b>	<b>2.92</b>
<i>Financial loss</i>	-9.04	-1.84	-7.68	-1.56	-13.20	-2.47
<i>Exchange differences</i>	-1.79	-0.36	-0.39	-0.08	-0.53	-0.10
<b><i>Profit (Loss) from ordinary activities</i></b>	<b>-39.08</b>	<b>-7.99</b>	<b>-5.55</b>	<b>1.12</b>	<b>1.84</b>	<b>0.34</b>
<i>Income tax</i>	14.97	3.05	3.99	0.81	5.43	1.02
<b><i>Net profit (loss) for the year</i></b>	<b>-24.10</b>	<b>-4.94</b>	<b>-1.56</b>	<b>-0.32</b>	<b>7.27</b>	<b>1.36</b>
<i>Profit (loss) attributable to non-controlling interests</i>	4.40	0.90	2.07	0.42	1.15	0.22
<b><i>Profit (loss) attributable to the Parent</i></b>	<b>-19.71</b>	<b>-4.04</b>	<b>0.51</b>	<b>0.10</b>	<b>8.41</b>	<b>1.58</b>

In terms of trends, following is an analysis of the most noteworthy of the changes in the consolidated statement of profit or loss:

- Sales fell by 0.7% in 2017 compared with the 2016 figure. This was due to the decrease in volumes billed and the price pressure caused by this decrease.
- The ratio of the cost of procurements to net sales increased from 54.3% at 2016 year-end to 56.0% due to an increase in premium products as a proportion of total Group sales, together with the effect of reductions in volumes and prices, mainly of standard products.
- The Group's headcount rose from an average of 2,217 in 2016 to 2,314 in 2017, a net increase of 97 people. However, the Group's efforts to adapt its cost structure to the current market situation ensured that staff costs in 2017 remained practically in line with 2016 levels.



- "Other Operating Expenses" made up 20.3% of revenue in 2017, compared to 19.6% in 2016.
- Depreciation and amortisation charges and impairment losses increased significantly in 2017, as a fundamental consequence of the recognition of an extraordinary accounting adjustment related to the change in business model to be implemented at the Austria subsidiary. This adjustment, while affecting the Group's net results, has no effect on cash flow.
- In 2017 the Group increased its borrowings by EUR 46.6 million to EUR 253.5 million, while its financial loss increased to a lesser extent, from EUR 7.68 million in 2016 to EUR 9.04 million.
- The income tax situation is positive, as tax credits, tax assets, deferred tax assets and other adjustments were recognised at year-end.

## **1.2 Financial activity**

The equity attributable to the Parent stood at EUR 257.2 million at the end of 2017, representing 28.4% of total equity and liabilities (2016: 33.7%). It is important to note that the Group's strategy, geared toward reducing borrowing costs and guaranteeing a solid cash position, has borne fruit, and that it currently enjoys a healthy financial position which enables it to ensure the coverage of its debt maturities for the next three to four years.

The Group's long-term financial debt at 31 December 2017 amounted to EUR 79.7 million, which represents 19.5% of the total debt, compared with 46.5% in 2016. The reduction of the percentage represented by long-term debt is due mainly to the reclassification of the loan with the European Investment Bank. The TUBACEX Group obtained a loan from the EIB in 2015, amounting to EUR 65 million and maturing in ten years. This loan agreement involves a series of clauses that have not been fulfilled at 2017 year-end, so, in accordance with generally accepted accounting principles, the debt has been reclassified to current liabilities in the consolidated statement of financial position. However, these clauses will be fulfilled once more in 2018 as soon as the net financial debt position is reduced through the normalisation of working capital (which rose at year-end due to manufacturing related to significant unbilled orders) and the expected cash from projects in progress is generated. Furthermore, at the date of formal preparation of these consolidated financial statements, the Group has received a waiver from the EIB which evidences the non-claimability of this loan.

In 2017 TUBACEX's share price performed very well; it increased by 22.7% due to the positive outlook of the industry and in line with the improvement in raw material prices, especially in the price of oil and the price of nickel, which rose by 17.7% and 21.9%, respectively. TUBACEX's share price ended 2017 at EUR 3.35 per share, which represents a market capitalisation of EUR 445.5 million, compared to EUR 363.0 million at 2016 year end.

The share price peaked in May at EUR 3.80 per share, whereas the lowest price was in January, at EUR 2.75 per share.

In 2017 103.0 million shares were traded, with effective trading amounting to EUR 328.7 million. There was a 38.6% increase in shares traded with respect to 2016, which represented a 77% turnover of all the Company's shares.

Since June 2015 TUBACEX's shares have been included in the "IBEX SMALL CAP" index, comprising the 30 securities with the highest adjusted free-float capitalisation other than the 35 securities in the "IBEX 35" index and the 20 securities in the "IBEX MEDIUM CAP" index.

### 1.3 Risk management policy

In 2017 the Group continued and extended to its various subsidiaries its efforts to establish and monitor active risk management policies which, since they are designed to mitigate the Company's exposure to the main risks associated with its activity, continued to be of major relevance in the current complex macroeconomic climate.

In 2016 the Audit and Compliance Committee updated the corporate risk map, and in 2017 it drew up specific risk maps for projects with a significant economic impact for the Group. With regard to the risks inherent to TUBACEX's activities, the control duties of the Group's governing bodies, which include the Board of Directors, the Audit and Compliance Committee, Corporate Financial Management and the financial and administrative departments of each business unit, as well as the Internal Audit Function and Compliance Unit, are focused on the key risks detailed below. It should be noted that the Board of Directors of TUBACEX, S.A. approved its corporate tax, control and risk management policies in 2016.

The main specific measures used by the Group to control its exposure to the risks associated with its activity are as follows:

- Credit risk.  
This is one of the most significant risks for the Company because it affects all revenue. The general policy is to cover as many transactions as possible through credit insurance and to this end the Group has entered into the corresponding annual agreements included under this arrangement. Transactions that are not covered by the aforementioned agreements are covered by sufficient letters of credit or collateral guarantees. The Group's general policy is to maintain certain minimum credit risk exposure levels. This policy has given rise to historic, exceptionally low non-payment percentages.
- Foreign currency risk.  
The Group is exposed to foreign currency fluctuations. Two effects arising from transactions involving product sales and raw material purchases can be identified. On the one hand, there is a risk in the change in the margin generated by sales from the time of the sale to its collection and a risk in the value of purchases made in US dollars and Indian rupees, mainly purchases of raw materials. On the other, there is a risk in the consolidation of the results of subsidiaries outside the eurozone (due to the use of the year-end exchange rate method) whose financial statements are denominated in US dollars. The greatest risk exposure relates to US dollars although there is also exposure to pounds sterling and Indian rupees. The Group's general policy is not to speculate with open positions; considering balance sheet positions and the risk assumed in the backlog, currency forwards are arranged, always under conservative policies, to mitigate the Group's exposure.
- Interest rate risk.  
The majority of the loans and credit facilities arranged by the Group are indexed to Euribor and to a lesser extent to US Libor in various arrangement and settlement periods, exposing the Group's borrowing costs to potential interest rate changes. The Group arranges fixed-rate interest rate hedges with a view to mitigating the aforementioned exposure, mainly in its long-term operations.
- Risk of volatility in raw material prices.  
The Group is exposed to changes in the price of the main raw materials used to manufacture stainless steel such as nickel, chromium, molybdenum and stainless steel scrap, the price of which is mainly indexed to the cost of nickel. The most significant effect arises from the price of nickel, which is quoted daily on the London Metal Exchange (LME) and from its impact on the cost of scrap metal, and also from chromium and molybdenum. The Group's general policy consists of hedging raw material prices relating to steel and tube orders listed at fixed prices in order to protect them from potential fluctuations prior to their collection.
- Liquidity risk.  
The Group manages liquidity risk prudently by arranging loans with long maturity periods and favourable financial conditions, credit lines with more extensive limits, a portion of which are not drawn down, allowing for the availability of credit in the short term, factoring facilities which help bring forward collections from customers, reverse factoring arrangements which facilitate the management of payments to suppliers, and spreading sources of financing, diversifying among several banks, the public authority that grants loans from the Spanish Centre for Industrial Technological Development (CDTI), the European Investment Bank, and the Alternative Fixed Income Market (MARF) (see Notes 18 and 19). The Group also has a good cash position that enables it to have a good liquidity position.

Also worthy of mention is that the information that must be disclosed in the directors' report under Law 31/2014, of 3 December, amending the Consolidated Spanish Limited Liability Companies Law to improve corporate governance, is that the Group's average payment period is 59 days. This payment period relates to payments to suppliers by the Parent and the other Spanish subsidiaries. This period exceeds the maximum payment period set by Law 11/2013, of 26 July, although this is for administrative reasons that will foreseeably be corrected in the short term.

#### **1.4 Sales activity**

The Group's consolidated sales amounted to EUR 490.36 million in 2017, down 0.7% on 2016. The main reasons for this performance are explained in point 1.1. above.

The Group's sales by geographical area over the last three years were as follows (in millions of euros):

	2017	2016	2015	2017/2016
Europe	283.30	278.98	321.28	1.5%
US	39.95	32.99	71.36	21.1%
Other countries	167.11	182.06	140.78	-8.2%
<b>Total sales</b>	<b>490.36</b>	<b>494.03</b>	<b>533.42</b>	<b>-0.7%</b>

According to these figures, by market, 58% of sales are made in the European market, 8% in the US and 34% in the rest of the world. In 2016 this distribution was 56%, 7% and 37%, respectively.

Geographically, over half of revenue is generated in Europe. It should be taken into account that in the sales made by the Group to new facilities in the oil, gas and energy industries, the Group client engineering the project or manufacturing the equipment is frequently European even though the final destination of the product may be a different geographical area.

#### **1.5 Manufacturing activity**

The investments made in property, plant and equipment in 2017 amounted to approximately EUR 34.9 million, as a whole, compared with the investment of EUR 34.0 million made in 2016.

The most important investments made in 2017 were the Group's positioning strategy in the higher value-added products which are necessary to ensure the quality required in this type of product and to improve the efficiency of these product lines.

In this connection, special mention should be made of the purchase of laminating machines (six Pilger laminators) for Salem, SBER and Tubacex Prakash. This investment is in line with the strategy of increasing standard product production capacity in India, increasing premium product capacity in Austria and strengthening the Group's position in the US.

Also, the investments to improve the efficiency at the Group's key industrial plants continued with the renewal and maintenance of equipment, firmly established procedures for preventive maintenance at facilities and strict compliance with environmental and industrial safety legislation.

## **1.6 Strategic plan**

In July 2016 the TUBACEX Group presented its 2016-2020 Strategic Plan, aimed at positioning the Company as a global tubular solutions provider, reducing volatility by diversifying risks, increasing the value of the Company in a normalised market situation and achieving management excellence. This strategy ensures that the customer not only remains the centre of the Group's activities, but that the customer's position is strengthened through the commitment to running a company that is fully focused on satisfying the customer's needs.

The main advances in each of the pillars of the strategy are as follows:

- **Business strategy:** Advance in the value chain with Premium products, reduce market volatility and commit to product and market diversification, through investment in a wider range of products and services.
- **Operational strategy:** Maintain progress in the three main pillars of the Tubecex Production System, which is the Group's own operational excellence system (ongoing improvement, radical improvement, transformation of upkeep).
- **Innovation strategy:** Customer-oriented business vision which offers value through the proposal of solutions in relation to cost optimisation and CAPEX reduction.
- **Management strategy:** Continually implement advanced management tools, create a lean culture, with properly qualified and motivated teams and the roll-out of ongoing improvement tools.

## **1.7 Competitiveness plan**

In mid-2014 and coinciding with the sharp drop in oil prices, the TUBACEX Group initiated an ambitious plan in all its production units with a view to improving operating margins and obtaining a competitive edge in productivity and costs. This competitiveness plan was strengthened and complemented throughout 2017 by a rigorous cost control plan at all levels of the organisation including, inter alia, outsourcing, personnel structure (especially temporary staff), outside services, cleaning, travel expenses, maintenance costs and other general expenses.

## **2. SITUATION OF THE GROUP**

In recent years, and particularly since the publication of the 2013-2017 strategic plan, TUBACEX has increased its positioning in the oil and gas and electricity generation industry by committing itself to the development of premium, high value-added products.

Since 2014 we have witnessed a sharp fall in the price of oil, which has caused the greatest crisis in the history of this industry, with three consecutive years of drops in the CapEx of oil and gas companies.

In this macroeconomic context, the demand for TUBACEX products fell significantly, adversely affecting the dilution of fixed costs and increasing the pressure on prices in all industries. However, there are internal positive factors which are worthy of mention. The cost reduction plan, the reinforcement of the sales structure, the increase in productivity and efficiency, the acquisition of three companies and the improved position in the premium sector allowed the Group to partially offset the current adverse economic environment.

In 2018 we anticipate a better situation from the Group's perspective, given the current historic portfolio of high value-added products. Furthermore, the first signs of recovery are starting to appear in the industry, such as the increase in the price of raw materials and the stabilisation of the price of oil, which signal a progressive improvement in the general market situation.

### **3. SIGNIFICANT EVENTS FOR THE GROUP AFTER THE REPORTING PERIOD**

After 2017 year-end no significant events took place.

### **4. OUTLOOK AND FUTURE PERFORMANCE OF THE GROUP'S BUSINESS LINES**

The International Monetary Fund confirmed in its latest World Economic Outlook update that economic activity is gaining momentum at global level. Global growth, which in 2016 posted the lowest rate since the global financial crisis (3.2%), will rise to 3.6% in 2017 and to 3.7% in 2018. According to the projections, growth will surge this year and next year in emerging markets and developing economies. The recovery is not absolute, however. The outlook for the advanced economies has improved, especially in the eurozone, but in many countries inflation is still weak, which reveals idle capacity still to be eliminated, and the GDP growth outlook is dampened by the weak growth in productivity.

Looking forward to 2018, there are signs of recovery in the industry in which TUBACEX sells its products and services (higher price of raw materials, stabilisation of the price of oil, increases in CapEx posted in the industry, etc.). However, changes in the market situation are still not expected in the short term as the effect of the increase in CapEx posted by oil and gas companies will take time to translate into an increase in demand for the Group's products. Despite this, TUBACEX's record backlog enables the Group to anticipate a substantial improvement in results in 2018, which will take effect from the first quarter.

### **5. INNOVATION ACTIVITIES**

In accordance with its strategic vision, the TUBACEX Group is making advances in its value proposition, offering integral solutions of great technological value and a wide range of value added services tailored to its customers (surface finishing processes, advanced superficial treatments, logistics services, prefabrication, etc.) with the ultimate aim of improving the global efficiency of both projects and customer processes, thus reducing total cost for the customer.

All this is possible thanks to innovation management in accordance with the principles of open innovation; this enables the integration of the capacities and knowledge of a network of companies, including customers, suppliers, research centres and business associates in general.

In recent years the TUBACEX Group has made a commitment to develop R&D+I capabilities and new products and processes for highly demanding applications. Its investments capitalise on the growing increase in resources in one of TUBACEX's key areas, with a gradual year-on-year increase.

### **6. ENVIRONMENTAL ACTIVITIES**

The improvement in environmental results continues to be a priority strategy for TUBACEX. To this end, it systematically implements, in all the Group's business units and in all operational situations, including emergencies, actions designed to minimise the environmental impact associated with its activity (waste, atmosphere, water, noise, energy, land, etc.). At the same time, also in relation to environmental impact, environmental surveillance and monitoring programmes are managed in accordance with current legislation and other specifications laid down by the competent authorities. In this regard, planned environmental expenses amounting to EUR 1.4 million were incurred in 2017.

The subsidiaries Tubacex Tubos Inoxidables (2001), Acería de Álava (2002), Schoeller-Bleckmann Edelstahlrohr (2006), Salem Tube (2008), IBF (2012) and Tubacex Prakash (2017) have in place an environmental management system under standard ISO 14001 certified by an accredited standardisation and certification body. Accordingly, the entire production process of the TUBACEX Group's plants in Llodio, Amurrio, Ternitz (Austria), Greenville (US), Milan (Italy) and Umbergaon (India) from the receipt of raw materials and preparation of the stainless steel to the dispatch of the manufactured tubes, has been approved with regard to environmental management by an accredited body.

The main lines of action in 2017 were as follows:

- TTI and ACERALAVA continued their participation in the review of the Ferrous Material Process BREF with a view to establishing the future BATs of that BREF.
- The environmental surveillance programmes implemented by the plants arising from requirements defined in the integrated environmental authorisations are being conducted without incident and presented in due time and form to the authorities.
- Noteworthy environmental improvements undertaken are as follows:
  1. Reduction of energy consumption, as a result of the programme of replacing lighting with LED lights at the three plants.
  2. Reduction of noise pollution as a result of the soundproofing of one of the TTI Llodio cooling towers.
  3. Continuous identification and implementation of more sustainable alternatives (in environmental and economic terms) for waste management. The increase in recovered waste is a priority environmental objective in which specific milestones are achieved each year.

## **7. ACQUISITION AND DISPOSAL OF TREASURY SHARES**

The number of treasury shares did not change in 2017 and amounted to 3,142,975 shares, representing 2.36% of the share capital.

## **8. PROPOSED ALLOCATION OF LOSS**

The proposed allocation of the loss of Tubacex, S.A. that the Board of Directors will submit for approval at the Annual General Meeting is as follows:

	Thousands of euros
To reserves	-28,832
Total	-28,832

## **9. INFORMATION ON FINANCIAL INSTRUMENTS**

Note 12 to the consolidated financial statements provides detailed information on the foreign currency and commodity purchase and sale forward contracts, as well as interest rate swaps, held by the TUBACEX Group at 31 December 2017.

## **10. OTHER INFORMATION**

### ***10.1 Fees paid to auditors***

The audit fees for the professional services rendered at the TUBACEX Group (at Spanish companies) in 2017 amounted to EUR 217.3 thousand.

## **11. ANNUAL CORPORATE GOVERNANCE REPORT**

The full text of the 2017 Annual Corporate Governance Report is set out below. This text was approved by the Board of Directors of Tubacex, S.A. and is an integral part of the 2017 consolidated directors' report.

## **12. NON-FINANCIAL INFORMATION STATEMENT**

The full text of the non-financial information statement is also set out below. This text was approved by the Board of Directors of Tubacex, S.A. and is an integral part of the 2017 consolidated directors' report.