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

Auditor’s Report Consolidated Financial Statements for the year ended 31 December 2019, 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.

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Tubacex, S.A.,

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tubacex, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

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

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

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

Key Audit Matters

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

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Accounting for the business combination effected in the year	
Description As described in Note 2.6, in 2019 the Group acquired a company specialised in the repair, maintenance and manufacture of stainless steel machined components, with headquarters in Dubai (UAE), in a transaction considered to be a business combination. As a result, the Group accounted for the business combination, which involved recognising intangible assets amounting to EUR 52 million. In this context, the measurement of the non-controlling interests and the determination of the fair value of the assets acquired and the liabilities assumed, which was performed by an independent expert engaged by the Group, as well as of the goodwill arising on the acquisition date, required the application of valuation techniques, such as the use of comparable market data and the estimation of discounted future cash flows, which require significant judgements and estimates to be made with respect to the assumptions considered (for example, estimated sales or the discount rate used). For these reasons, we considered this matter to be a key matter in our audit.	**Procedures applied in the audit** Our audit procedures included, among others, obtaining the analysis performed by the Group and by the expert engaged for the purposes of the purchase price allocation, and verifying the clerical accuracy of the calculations made and the reasonableness of the main assumptions considered therein (basically those relating to future cash flow forecasts and the discount rates). We evaluated the competence, capability and objectivity of the expert engaged by the Group to determine the fair value of, inter alia, the assets acquired. Also, we obtained an understanding of the work performed by this expert and of the appropriateness of that work as audit evidence. To this end, we analysed whether the future cash flow forecasts considered in the analysis performed were consistent with external data. In addition, we evaluated the reasonableness of the key assumptions considered using public data relating to comparable companies in the industry to which the acquired business belongs. We involved our internal valuation experts in order to evaluate, mainly, the methodology employed in the analysis conducted, both by the Group and by the expert engaged by it, and the inputs considered. Lastly, we checked that the disclosures included in Note 2.6 to the accompanying consolidated financial statements in connection with this matter were in conformity with those required by the applicable accounting regulations.

Recoverability of intangible assets associated with the Italian CGU

Description	Procedures applied in the audit
As described in Note 3.1 to the accompanying consolidated financial statements, the Group is required to test goodwill and other assets with indefinite useful lives for impairment annually; in the case of other non-current assets, the impairment test is performed whenever management considers that there is an indication that they may be impaired. At 31 December 2019, the Group had recognised in the consolidated statement of financial position intangible assets amounting to EUR 19 million associated with the CGU relating to IBF. The related impairment test was significant for our audit, since the amount of these assets is material to the consolidated financial statements as a whole. The valuation process performed by management in this connection requires the use of significant judgements and estimates, both when determining the valuation method used and when considering the key assumptions established for the method in question (such as future sales forecasts, the discount rates, the royalty charge in the case of the brand, etc.). Accordingly, this matter was considered to be a key matter in our audit.	Our audit procedures included, among others, substantive procedures to evaluate 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 projected future cash flows, the royalty charge, the terminal value and the 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 internal valuation experts in order to evaluate, mainly, the methodology employed by the Group in the analysis conducted, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows. Lastly, we checked that the disclosures included in Note 7 to the accompanying consolidated financial statements in connection with this matter were in conformity with those required by the applicable accounting regulations.

Recoverability of deferred tax assets

Description	Procedures applied in the audit
The consolidated statement of financial position as at 31 December 2019 includes EUR 75 million of deferred tax assets, of which EUR 46 million relate to tax assets (mainly tax loss and tax credit carryforwards) corresponding to companies included in the Álava tax group headed by the Parent (of which EUR 6 million are tax credits that can be recovered independently by the Parent since they were generated prior to its joining the Álava consolidated tax group), EUR 19 million relate to tax assets that are recoverable in Austria and EUR 8 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 these deferred tax assets, 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.	Our audit procedures included, among others, in addition to reviewing the tax planning measures, reviewing the aforementioned financial models - including an analysis of the consistency of the actual results obtained by the various divisions with the results projected in the previous year's models-, obtaining evidence of the approval of the budgeted results included in the current year's models and the tax legislation applicable where the deferred tax assets are recognised, and evaluating the reasonableness of the projections for future years and the consistency of these projections with those used in other areas of estimation, such as those used in the assessment of impairment of financial assets relating to Group companies and associates or in the assessment of the use of the going concern basis of accounting. Also, we involved our internal experts from the tax area in the analysis of the reasonableness of the tax assumptions considered on the basis of the applicable legislation, for the various units for tax purposes or consolidated tax subgroups. Lastly, we evaluated whether Note 22 to the accompanying consolidated financial statements contained the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Recognition of unusual transactions

Description

As described in Notes 2.4, 2.6 and 16.10, in 2019 the Group performed various transactions, such as business combinations, acquisitions of ownership interests from non-controlling shareholders and significant contracts or significantly complex contracts in new markets.

The potential impact of these transactions, the interpretation of the clauses included in the related contracts, the determination of the value of the assets and liabilities arising therefrom and the recognition of the transactions for accounting purposes require the application of a high level of judgement and significant estimates to be made. For these reasons, we considered this matter to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, obtaining management's analysis of the contracts and respective supporting documentation, as well as the relevant correspondence with both the counterparties associated with the transactions and the Group's legal counsel, in order to evaluate the reasonableness of the process followed.

We also reviewed the estimates performed by management and verified both the clerical accuracy of the calculations made and the reasonableness of the assumptions considered.

In addition, we involved our legal experts to assist us with the interpretation of certain aspects of the contracts and other documentation which might affect the accounting treatment of the transactions, as part of the work performed in relation to the validation of the Company's accounting and with determining whether it was in conformity with the applicable accounting regulations.

Lastly, we checked that the disclosures included in Notes 2.4, 2.6 and 16.10 to the accompanying consolidated financial statements in connection with this matter were in conformity with those required by the applicable accounting regulations.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2019, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

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

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

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

Based on the work performed, as described above, we observed that the information described in section a) above was provided in the consolidated directors' report and that the other information in the consolidated directors' report was consistent with that contained in the consolidated financial statements for 2019 and its content and presentation were in conformity with the applicable regulations.

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2020.

Engagement Period

The Annual General Meeting held on 21 May 2019 appointed us as auditors for a period of one year from the year ended 31 December 2018.

Previously, we were designated pursuant to a resolution of the General Meeting for a period of three years and have been auditing the 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 2020

Appendix to our auditor's report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 AND 2018

(Thousands of euros)

ASSETS	Notes	31/12/2019	31/12/2018 (*)
NON-CURRENT ASSETS			
Intangible assets	**Note 7**	**102.401**	**51.935**
Goodwill		10.108	11.481
Other intangible assets		92.293	40.454
Property, plant and equipment	**Note 8**	**308.127**	**267.658**
Investments accounted for using the equity method	**Note 10**	**6**	**240**
Derivative financial instruments	**Note 12**	**99**	**265**
Non-current financial assets	**Note 11**	**5.209**	**7.053**
Deferred tax assets	**Note 22**	**75.210**	**66.365**
Total non-current assets		**491.052**	**393.516**
CURRENT ASSETS			
Inventories	**Note 13**	**304.996**	**308.457**
Trade and other receivables	**Note 14**	**113.997**	**94.626**
Trade receivables for sales and services		88.995	76.863
Other receivables		22.246	16.771
Current tax assets		2.756	992
Derivative financial instruments	**Note 12**	**2.201**	**1.845**
Current financial assets	**Note 11**	**24.556**	**17.794**
Other current assets		**4.170**	**3.676**
Cash and cash equivalents	**Note 15**	**142.611**	**172.320**
Total current assets		**592.531**	**598.718**
TOTAL ASSETS		**1.083.583**	**992.234**

EQUITY AND LIABILITIES	Notes	31/12/2019	31/12/2018 (*)
EQUITY	**Note 16**		
Shareholders' equity-			
Registered share capital		59.840	59.840
Share premium		17.108	17.108
Revaluation reserve		3.763	3.763
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method		196.159	181.651
Treasury shares		(8.502)	(7.850)
Profit (Loss) for the year attributable to the Parent		11.149	17.385
Interim dividend		-	(3.000)
Other equity instruments	**Note 16.6**	917	930
		280.434	**269.827**
Valuation adjustments			
Translation differences		6.512	4.831
Hedges		539	(307)
	Note 16.7	**7.051**	**4.524**
Equity attributable to the Parent		**287.485**	**274.351**
Non-controlling interests		**48.156**	**26.064**
Total equity		**335.641**	**300.415**
NON-CURRENT LIABILITIES			
Long-term provisions	**Note 17**	**2.611**	**2.656**
Deferred income		**12.391**	**1.693**
Non-current financial liabilities		**166.684**	**139.310**
Bank borrowings	**Note 18**	166.588	138.602
Derivative financial instruments	**Note 12**	96	708
Employee benefit obligations	**Note 21**	**9.457**	**8.661**
Deferred tax liabilities	**Note 22**	**19.344**	**14.377**
Other non-current financial liabilities	**Note 19**	**15.834**	**7.351**
Total non-current liabilities		**226.321**	**174.048**
CURRENT LIABILITIES			
Short-term provisions	**Note 17**	**6.229**	**5.549**
Current financial liabilities		**268.082**	**307.573**
Debt instruments and other marketable securities	**Note 18**	131.550	144.698
Bank borrowings	**Note 18**	122.610	161.285
Derivative financial instruments	**Note 12**	771	1.590
Other current financial liabilities	**Note 19**	13.151	-
Trade and other payables	**Note 20**	**247.310**	**204.649**
Payable to suppliers		206.755	163.095
Other payables		40.295	41.312
Current tax liabilities	**Note 22**	260	242
Total current liabilities		**521.621**	**517.771**
TOTAL EQUITY AND LIABILITIES		**1.083.583**	**992.234**

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

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of financial position as at 31 December 2019.

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 2019 AND 2018

(Thousands of euros)

	Notes	2019	2018 (*)
Continuing operations:			
Revenue	Note 6	613.545	677.324
+/- Changes in inventories of finished goods and work in progress	Note 13	2.924	(26.342)
In-house work on non-current assets	Note 3.2	4.899	3.706
Procurements	Note 13	(307.714)	(330.259)
Other operating income	Notes 11 & 24	7.680	9.066
Staff costs	Note 25	(146.202)	(133.472)
Other operating expenses	Note 24	(121.044)	(130.447)
Depreciation and amortisation charge and impairment losses on non-current assets	Notes 7 & 8	(44.292)	(35.126)
Negative difference in business combination	Note 2.6	12.993	-
Profit (Loss) from operations		**22.789**	**34.450**
Finance income	Note 11	1.780	1.438
Finance costs	Notes 11 & 18	(13.499)	(16.117)
Exchange differences		430	236
Financial profit (loss)		**(11.289)**	**(14.443)**
Result of companies accounted for using the equity method	Note 10	-	(112)
Profit (loss) before tax		**11.500**	**19.895**
Income tax	Note 22	3.174	(2.461)
Profit (loss) for the year from continuing operations		**14.674**	**17.434**
Profit/Loss from discontinued operations		-	-
Consolidated profit (loss) for the year		**14.674**	**17.434**
Profit (Loss) attributable to:			
The Parent		11.149	17.385
Loss attributable to non-controlling interests		3.525	49
Earnings per share (in euros)			
- Basic	Note 23	0,1132	0,1339
- Diluted	Note 23	0,1102	0,1339

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

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of profit or loss for 2019.

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 2019 AND 2018

(Thousands of euros)

	Notes	2019	2018 (*)
Consolidated loss for the year		**14.674**	**17.434**
Items that may be reclassified subsequently to profit or loss:			
Income and expense recognised directly in equity			
Measurement of cash flow hedging instruments	Notes 12 & 16	218	166
Tax effect	Notes 12, 16 & 22	(53)	(43)
Translation differences	Note 16.7	1.681	1.178
Transfers to profit or loss			
Measurement of cash flow hedging instruments	Notes 12 & 16	895	4.863
Tax effect	Notes 12, 16 & 22	(214)	(1.264)
Other comprehensive income		**2.527**	**4.900**
Total comprehensive income for the year		**17.201**	**22.334**
Profit (Loss) attributable to:			
The Parent		13.676	22.285
Loss attributable to non-controlling interests		3.525	49

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

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of comprehensive income for 2019.

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TUBACEX, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR 2019 AND 2018

(Thousands of euros)

	Registered share capital	Share premium	Revaluation reserve	Other reserves	Treasury shares	Net profit (loss) for the year	(Interim dividend)	Other equity instruments	Translation differences	Cash flow hedges	Non-controlling interests	Total equity
Balance at 31 December 2017 (*)	**59.840**	**17.108**	**3.763**	**203.667**	**(7.850)**	**(19.710)**	**-**	**790**	**3.653**	**(4.029)**	**24.583**	**281.815**
Total comprehensive income	**-**	**-**	**-**	**(2.502)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2.502)**
Other changes in equity	-	-	-	-	-	**17.385**	-	-	**1.178**	**3.722**	**49**	**22.334**
Distribution of dividends (Notes 4 and 16.8)												-
Transfers between equity items	-	-	-	-	-	-	(3.000)	-	-	-	-	(3.000)
Other movements	-	-	-	(19.710)	-	19.710	-	-	-	-	-	-
Long-term incentive plan (Notes 3.11, 3.12 and 16)	-	-	-	196	-	-	-	-	-	-	1.432	1.628
Balance at 31 December 2018 (*)	-	-	-	-	-	-	-	140	-	-	-	140
IFRS 9 impact (Note 2.2)	**59.840**	**17.108**	**3.763**	**181.651**	**(7.850)**	**17.385**	**(3.000)**	**930**	**4.831**	**(307)**	**26.064**	**300.415**
Total comprehensive income	-	-	-	**-**	**-**	**11.149**	-	-	**1.681**	**846**	**3.525**	**17.201**
Other changes in equity												
Distribution of dividends (Notes 4 and 16.8)	-	-	-	-	-	(6.000)	3.000	-	-	-	-	(3.000)
Transfers between equity items	-	-	-	11.385	-	(11.385)	-	-	-	-	-	-
Acquisition of minority interests (Note 16.10)	-	-	-	3.005	-	-	-	-	-	-	(17.560)	(14.555)
Acquisition NTS Group (Note 2.6)	-	-	-	-	-	-	-	-	-	-	36.712	36.712
Treasury share transactions (Note 16.5)	-	-	-	-	(652)	-	-	-	-	-	-	(652)
Other movements	-	-	-	118	-	-	-	-	-	-	(585)	(467)
Long-term incentive plan (Notes 3.11, 3.12 and 16)	-	-	-	-	-	-	-	(13)	-	-	-	(13)
Balance at 31 December 2019	**59.840**	**17.108**	**3.763**	**196.159**	**(8.502)**	**11.149**	**-**	**917**	**6.512**	**539**	**48.156**	**335.641**

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

The accompanying Notes 1 to 32 are an integral part of the consolidated statement of changes in equity for 2019.

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 2019 AND 2018

(Thousands of euros)

	Notes	2019	2018 (*)
Cash flows from operating activities			
Loss for the year before tax		11.500	19.895
Adjustments for:			
Depreciation and amortisation charge and impairment losses on non-current assets	Notes 7 & 8	44.292	35.126
Exchange (gains)/losses		(430)	(236)
Changes in write-downs and provisions	Notes 13, 14, 17 & 21	342	4.718
Negative difference in business combination	Note 2.6	(12.993)	-
Finance income	Note 11	(1.780)	(1.438)
Finance costs	Note 18	13.499	16.117
Share of results of companies accounted for using the equity method	Note 10	-	112
Changes in equity instruments – share-based payment transactions	Note 16	(13)	140
In-house work on non-current assets	Note 3.2	(4.899)	(3.706)
Gains or losses on disposals of other items of property plant and equipment and intangible assets	Notes 7, 8 & 24	-	(982)
Recognition of government grants in profit or loss	Note 24	(23)	(165)
		49.495	**69.581**
Changes in working capital:			
Inventories	Note 13	1.397	(63.251)
Trade and other receivables	Note 14	(14.356)	(3.276)
Other current assets		15.043	30.990
Trade and other payables	Note 20	45.901	(36.069)
Other current liabilities	Notes 17 & 21	-	2.660
Other non-current assets and liabilities		(231)	(867)
		47.754	**(69.813)**
Other cash flows from operating activities:			
Interest paid		(13.499)	(15.327)
Income tax recovered/(paid)	Note 22	(242)	(182)
Net cash flows from operating activities (I)		**83.508**	**(15.741)**
Cash flows from investing activities:			
Proceeds from disposal of non-current assets	Notes 7 & 8	720	6.557
Proceeds from disposal of financial assets	Note 11	-	20.787
Interest received		1.780	1.438
Investments accounted for using the equity method	Note 10	234	-
Acquisition of property, plant and equipment	Note 8	(62.542)	(27.480)
Acquisition of intangible assets	Note 7	(1.371)	(2.226)
Acquisition of other financial assets	Notes 11 & 12	(4.918)	(6.977)
Investments in business units	Note 2.6	(17.213)	9
Net cash flows from investing activities (II)		**(83.310)**	**(7.892)**
Cash flows from financing activities:			
Operations with own shares	Note 16.5	(652)	-
Acquisition of shares from external partners	Note 16.10	(12.000)	-
Proceeds from issue of bank borrowings	Note 18	38.455	60.160
Proceeds from issue of other borrowings	Note 18	131.550	144.746
Proceeds from issue of other financial liabilities	Notes 12 & 19	3.118	-
Repayment of bank borrowings	Note 18	(38.423)	(17.773)
Repayment of other borrowings	Note 18	(144.698)	(95.636)
Repayment or settlement of other financial liabilities	Notes 12 & 19	(1.257)	(2.811)
Dividends paid	Note 16.8	(6.000)	-
Net cash flows from financing activities (III)		**(29.907)**	**88.686**
Effect of foreign exchange rate changes (IV)		**-**	**-**
Net increase/(decrease) in cash and cash equivalents (I+II+III+IV)		**(29.709)**	**65.053**
Cash and cash equivalents at 1 January	Note 15	172.320	107.267
Cash and cash equivalents at 31 December	Note 15	**142.611**	**172.320**

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

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

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

1. Description and activities of the Parent

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

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

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

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

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

Formal preparation of financial statements

These consolidated financial statements were authorised for issue by the Board of Directors on 27 February 2020. The TUBACEX Group's consolidated financial statements for 2018 were approved by the shareholders at the Annual General Meeting of TUBACEX on 22 May 2019. The 2019 consolidated financial statements of the Group and the 2018 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Board of Directors of TUBACEX considers that the aforementioned financial statements will be approved without any changes.

2. Basis of presentation of the consolidated financial statements

The principal accounting policies adopted in the preparation of these financial statements are described below. Except as indicated in Note 2.1 below, the accounting policies have been applied consistently for all the periods presented.

2.1 Basis of presentation

The consolidated financial statements for 2019 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 2019 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

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

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

2.2 Adoption of International Financial Reporting Standards (IFRSs)

In 2019 the following mandatory accounting standards and interpretations, already adopted by the European Union, came into force and, where applicable, were used by the Group in the preparation of these consolidated financial statements:

(1) ***New standards, amendments and interpretations mandatorily applicable in 2019***

IFRS 16 *Leases* (published January 2016)	New lease recognition rule (Replaces IAS 17 and associated interpretations)	January 1, 2019
Amendment to IFRS 9 *Features early cancellation with negative compensation* (published in October 2017).	It will allow the amortized valuation of some early-cancellable financial assets for an amount less than the outstanding principal and interest amount	January 1, 2019
Modification to IAS 28 *Long-term interest in associates and joint ventures* (published October 2017)	Clarifies the application of IFRS 9 to long-term interests in an associate or joint venture if the equivalence method is not applied	January 1, 2019
Improvements to IFRS Cycle 2015-2017 (published December 2017)	Amendments to a set of standards	January 1, 2019
Modification to IAS 19 *Modification, reduction or settlement of a plan* (published February 2018)	Clarifies how to calculate the cost of the service for the current period and the net interest for the remainder of an annual period when a change, reduction, or settlement of a defined benefit plan occurs	January 1, 2019
CINIIF 23 *Uncertainty about tax treatments* (published June 2017)	Clarification on how to apply IAS 12 registration and valuation criteria when there is uncertainty about the tax authority's acceptability of a particular tax treatment used by the entity	January 1, 2019

IFRS 16, Leases

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

The evaluation of the impact of this new standard is finished at 31 December 2019, using these aspects:

- The Group has identified all leases that, at 31 December 2018, were, in turn, classified as having a "low value" underlying asset (taking the value provided in the IFRSs -USD 5,000- as a reference), focusing its analysis on leases that convey the right to control the use of an asset. Following the cost / benefit model permitted under IFRSs, or the simplified approach for practical purposes, the Group accounts for low-value or short-term leases (with a term of 12 months or less from the commencement date) using the accounting policy that has applied to date, recognising such leases as an expense on a straight-line basis over the lease term. At 31 December 2018, the lease payments amounted to EUR 753thousand.

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

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

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

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

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

- For the purposes of this new accounting standard, the Group has recogniseed the impact thereof using the cumulative catch-up approach, under which these balances are not calculated using the full retrospective approach and comparative information is not restated, so that the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of equity, where appropriate, in 2018. At 1 January 2019, the right-of-use asset was equal to the lease liability and amounted to approximately EUR 4,049 thousand, with maturities from 2020 to 2022. At 31 December 2019, the carrying amount of this asset by right of use totalled EUR 3,450 thousand and was recognised under non-current assets in the accompanying consolidated balance sheet (see Note 8).

(2) ***New standards, amendments and interpretations to be applied on a mandatory basis in financial years subsequent to the calendar year commencing on 1 January 2018***

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

Approved for use in the European Union		**Mandatory application exercises starting from:**
IFRS 17 Insurance Contracts (issued May 2017)	It includes the principles of registration, valuation, presentation and breakdown of insurance contracts. It will replace IFRS 4....	January 1, 2021
Amendment to IFRS 3 Definition of Business (published October 2018)	Clarifications to the definition of business	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Materiality (issued October 2018)	Amendments to IAS 1 and IAS 8 to align the definition of materiality with that contained in the conceptual framework	1 January 2020

2.3 Functional currency

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

The detail of the equivalent value in thousands of euros of the assets and liabilities of the subsidiaries with a functional currency other than the euro at 31 December 2019 and 2018, including intra-Group balances eliminated from the accompanying consolidated statement of financial position, is as follows:

	Equivalent value in thousands of euros			
	31.12.19		31.12.18	
Currency	Assets	Liabilities	Assets	Liabilities
Brazilian real	1.355	1.168	1.267	890
Thai baht	14.658	8.940	12.338	7.328
US dollar	209.729	66.125	115.789	62.857
Indian rupee	57.824	18.076	52.471	13.867
Total	**283.566**	**94.309**	**181.865**	**84.942**

At 31 December 2019 the Parent had a balance payable of EUR 22.151 million in foreign currencies.

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

	Equivalent value in thousands of euros			
	31.12.19		31.12.18	
Nature of the balances	Assets	Liabilities	Assets	Liabilities
Intangible assets	76.051	-	11.019	-
Property, plant and equipment	96.917	-	49.904	-
Non-current financial assets and deferred tax assets	5.968	-	24.249	-
Inventories	39.676	-	35.167	-
Trade and other receivables	39.125	-	25.389	-
Other current financial assets	1.060	-	1.084	-
Cash and cash equivalents	24.769	-	35.053	-
Non-current liabilities	-	49.196	-	17.652
Current liabilities	-	45.113	-	67.290
Total	**283.566**	**94.309**	**181.865**	**84.942**

2.4 Responsibility for the information and use of significant estimates

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

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

- The assumptions used to measure goodwill and intangible assets with indefinite useful lives (see Notes 2.6 and 7).
- The assumptions used to evaluate the recoverability of deferred tax assets (see Note 22).
- The useful life of the intangible assets and property, plant and equipment (see Notes 7 and 8).
- The evaluation of possible impairment losses on certain assets (see Notes 7, 8, 10, 11 and 14).
- The analysis of net realisable values, the assessment of write-downs due to the slow movement of inventories and the evaluation of possible losses on the committed order backlog (existence of onerous contracts) (see Note 13).
- The amount of provisions for contingencies and charges and the probability of occurrence and amount of any liabilities of undetermined amount or contingent liabilities (see Note 17).
- Achievement of covenants in relation to certain financing received (see Note 18).
- The assumptions used in the actuarial calculation of pension and other obligations to employees (see Note 21).
- The fair value of certain equity instruments (see Notes 3.12 and 16.6). Compliance with the conditions for the derecognition of certain financial instruments (Note 3.5).

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

On 24 May 2017, the Group entered into an agreement with National Iranian Oil Company (NIOC) to supply a 600 km-long, stainless steel, corrosion resistant pipeline. During 2018 various socio-political circumstances occurred which led the Group to interrupt the supply of pipes in accordance with the information provided in the Tubacex Group's annual accounts prepared on 27 February 2019. At the date of these consolidated annual accounts, the contract has been de facto terminated due to its impossibility of being executed, although actions are being taken for its formal termination. At 31 December 2019 the Group had provided guarantees to NIOC amounting to Euros 52 million to secure compliance with the contract, which, given the restrictions imposed by the penalties imposed by the United States, are not enforceable (see Note 17). These consolidated financial statements do not include any assets or liabilities arising from this contract.

At 31 December 2018, the directors of the TUBACEX Group considered that the Group did not have any material contingent liabilities other than those disclosed herein (Nor did they exist on 31 December 2018).

2.5 Comparative information

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

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

In 2019 and subsequent to the preparation of the 2018 financial statements, certain reclassifications of the financial statements were made, which do not have any effect on the Group's consolidated profit or loss or on its equity, nor do they affect the cash flows from operations in 2018. The most significant correction relates to the contract indicated in Note 2.4, which was discontinued at the end of 2018. The directors have identified a reclassification between "Revenue" and "Changes in Inventories of Finished Goods and Work in Progress" and, therefore, the income statement which, for comparison purposes only, is presented together with that for 2019, has been restated. This reclassification reduced revenue for 2018 by EUR 55,202 thousand and increased income under "Changes in Inventories of Finished Goods and Work in Progress" by EUR 53,878 thousand and lower supplies by EUR 1,324 thousand.

	Thousands of euros		
	Debit (Credit)		
	PYG 2018	PYG 2018	PYG 2018
Net amount of turnover	677.324	(55.202)	622.122
+/- Variation of stocks of finished and in-process products	(26.342)	53.878	27.536
Work done by the group for its assets	3.706	-	3.706
Supplies	(330.259)	1.324	(328.935)
Other operating income	9.066	-	9.066
Personnel expenses	(133.472)	-	(133.472)
Other operating expenses	(130.447)	-	(130.447)
Amortization and impairments of the asset value	(35.126)	-	(35.126)
Operating income	**34.450**	-	**34.450**
Financial income	1.438	-	1.438
Financial expenses	(16.117)	-	(16.117)
Change differences	236	-	236
Financial income	**(14.443)**	-	**(14.443)**
Result of entities valued by the equity method	(112)	-	(112)
Pre-tax profit	**19.895**	-	**19.895**
Profit tax	(2.461)	-	(2.461)
Consolidated income for the year	**17.434**	-	**17.434**

As a result of the review carried out, it has been necessary to make reclassifications between several of the breakdowns of the stock figure, and the total amount of the stock figure has not changed. All the necessary details in Note 13 have been amended to reflect the impact of the analysis performed and to facilitate comparability with the figures for 2019.

The aforementioned non-recurring contract was discontinued in 2018 and does not affect the Group's recurring revenue. This reclassification does not affect the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flow or the Consolidated Statement of Changes in Equity. In addition, the reclassification does not affect the clauses attached to the loan granted by the European Investment Bank indicated in note 18 to the 2018 consolidated financial statements.

2.6 Basis of consolidation

Scope of consolidation

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

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

Changes in the scope of consolidation

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

NTS Group

On February 19, 2019, the TUBACEX Group reached a binding agreement to acquire 49% of the NTS Group, a company specialized in the repair, maintenance and manufacture of machined stainless steel components, with headquarters in Dubai (UAE) and facilities in Saudi Arabia, Dubai and Norway. Considering the clauses established in the shareholders' agreement signed with the other partner, the directors consider that they have control of the company. On 25 April 2019 the transaction was closed and the Group began to direct the financial and economic policies of the NTS Group, at which time the Group was included in the scope of consolidation.

In the acquisition agreement there was an option granted in favour of the minority partner, whereby, as from 1 January 2021, this partner could sell its interest in this Group to Tubacex (the latter having a purchase obligation), in the event that certain agreements expressed in the aforementioned agreement had not been fulfilled. The directors estimated the value of this option at Euros 18 million and the Group has recorded a liability for this amount with a charge to equity - minority interest. In December the Group reached a new agreement with this partner modifying the option granted. In accordance with the amendment, the minority partner has the possibility of requiring the Group to purchase its interest (at a value that would be calculated by an independent valuator), or, Tubacex may reject the purchase of the interest. In this case, the minority shareholder would have the option of either acquiring the shares owned by the Tubacex Group or organising a process to sell the entire company to a third party. In either of these last two circumstances, the minority shareholder would be entitled to receive the lower of the fair value calculated by an independent valuator for the percentage of its interest and the sale price obtained in the market for all the shares. Consequently, since there is no obligation for Tubacex to deliver cash, the option initially recorded has been cancelled, with a credit to Minority Interest.

The total amount of the acquisition is Euros 22.2 million, of which Euros 17.2 million was paid on taking control, with the remainder corresponding to the Directors' estimate of the variable price, which is payable in 2020 and depends on the Group's EBITDA for 2019 and 2020.

The transaction is in line with the growth strategy set out in Tubacex's 2018-2022 Strategic Plan, advancing its strategy of becoming a global supplier of tubular solutions by significantly strengthening its product portfolio for the energy exploration and production sector.

The identifiable assets acquired and liabilities assumed at the date of the takeover were as follows:

Nature of balances	Thousands of euros
Total net assets and liabilities	**4.739**
Non-current asset (fixed assets)	13.003
Current asset	15.537
Non-current liabilities	(2.175)
Current liabilities	(8.033)
Minority interests	(13.593)
Other identifiable assets and liabilities	**53.586**
Customer relations	41.799
Brand	10.617
Fixed assets	3.643
Deferred tax liabilities	(2.473)
Minority interests	**(23.119)**
Transferred consideration	**17.213**
Contingent consideration	**5.000**
DNC	**12.993**

The valuation of the net assets acquired was performed by an independent expert in order to express an independent opinion on the fair value of certain intangible assets identified in accordance with the criteria established by international accounting standards IAS 38 and IFRS 3. In order to verify the reasonableness of the negative consolidation difference arising from the purchase transaction, an analysis was performed of the nature of the items comprising the Group's balance sheet acquired, in order to assess whether there are any items whose fair value is susceptible to additional adjustments to those already made prior to the integration of the company in the scope of consolidation.

The negative consolidation difference arising from the transaction, the value of which totals EUR 12,993 thousand, is mainly identified with the characteristics of the business acquired, which is in a highly specialised and high value-added sector with a highly recognised brand name and high barriers to entry for new players due to the conservative nature of the sector, a very stable customer portfolio and stable turnover.

The amount of revenue recognised in the consolidated financial statements at 31 December 2019, from the date of the acquisition of control, relating to the acquired Group amounted to EUR 23,581 thousand, with profit before tax of EUR 5,326 thousand. If the Group had been consolidated as from 1 January 2019, revenue and profit before tax would have increased by approximately EUR 5,240 thousand and EUR 2,339 thousand, respectively.

Minority interests were recognised at fair value in the allocation of the price paid.

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

Tubacex Servicios de Gestión

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

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

Tubacex US Holding, Inc.

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

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

Tubacex Durant, Inc.

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

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

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

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

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

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

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

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

Despite the fact that the Fund is 99.9% owned by the bank, the Group proceeded to consolidate this fund as of 31 December 2018, insofar as it is:

- The relevant activities of the project fall mainly to the Group,
- The Group is the main beneficiary of the Fund's income, a structure that has been designed precisely to benefit from it,
- The Group has the capacity to manage the relevant activities, which are carried out not by voting rights but by contractual agreements, and
- After the 7-year period (during which it obtains the tax incentives of the NMTC Program) USBCDC would exercise its put option, for an amount of 1,000 plus any amount pending between the parties, undoing its participation in the fund. In any case, the recorded liability mentioned in note 3.3 would include the payment of such option.

Therefore, the Group complies with the requirements defined by IFRS 10, since it controls the Fund.

Consequently, "Other long-term liabilities" in the consolidated balance sheet at 31 December 2018 included an amount of EUR 9.5 million relating to the contribution made by USBCDC to the Fund, net of fees.

In accordance with the planned timetable, construction of the plant began in 2018 and it is expected to start its normal activity in the first quarter of 2020, after having started testing in December 2019.

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 2019 and 2018, the Tubacex Group did not have any joint operations or ventures of this nature.

Business combinations

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

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

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

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

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

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

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

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

Translation of financial statements denominated in foreign currency

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

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

2.7 Correction of errors

Except as indicated in note 2.5, no significant errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2018.

2.8 Going concern principle of accounting

At 31 December 2019, the Group had a positive working capital of EUR 171 million and a profit of EUR 15.

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 336 million and a market capitalisation of EUR 376 million at 31 December 2019.

In addition, at 31 December 2019, the Group has a good financial position with 143 million euros in "Cash and cash equivalents", 25 million euros in "Current financial assets" and undrawn lines of credit amounting to 48.8 million euros (see Note 18). The Group also has access to both bank and non-bank financing.

In view of the foregoing, the directors formally prepared these consolidated financial statements using the going concern basis of accounting.

3. Accounting policies

The principal accounting policies used by the TUBACEX Group in preparing its consolidated financial statements as at 31 December 2019 and 2018 were as follows:

3.1 Intangible assets

Goodwill-

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

Goodwill is recognised as an asset when it arises in an acquisition for valuable consideration in the context of a business combination. Goodwill is allocated to the cash-generating units to which the economic benefits of the business combination are expected to flow and is not amortised. Instead, these cash-generating units are tested for impairment at least once a year using the methodology described in Note 3.3 and, where appropriate, are written down.

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

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.

Other intangible assets-

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

The Parent's directors recognised at fair value a trademark and an agreement with a strategic customer of the subsidiary IBF SpA, which were recognised in the context of the business combinations performed in 2016 (see Note 7). The Parent's directors consider that the trademark has an indefinite useful life and will perform an impairment test at the end of each year. Similarly, the directors will assess the status of the agreement with the customer at the end of each year.

Also, in the context of the business combination carried out in 2019, the Group recognised brands and intangible assets that are identified with "customer relations" recognised at fair value (see Notes 2.6 and 7). The Parent's directors consider that trademarks are intangible assets with an indefinite useful life, the impairment of which will be analysed at the end of each year or when signs of impairment are detected. The intangible assets associated with "customer relations" will be amortised over the life of these assets, the average period of which is estimated to be ten years.

Research and development expenditure-

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

- It is specifically itemised by project and the related cost can be clearly identified.

- There are sound reasons to foresee the technical success and economic and commercial profitability of the related projects.

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

Useful life and amortisation-

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

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

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

3.2 Property, plant and equipment

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

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

In 2019, capitalised staff costs totalled EUR 4,899 thousand, mainly relating to the capitalisation of working hours of Group engineers, which were recognised under "Work performed by the Group as an asset" (EUR 3,706 thousand at 31 December 2018). Of this work, EUR 3,895 thousand was recognised under "Intangible assets" (see Note 7) (EUR 2,513 thousand at 31 December 2018) and EUR 1,004 thousand under "Property, plant and equipment" (see Note 8) (EUR 1,193 thousand at 31 December 2018).

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 2019 or 2018.

In general, for non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets. The Group capitalised borrowing costs amounting to EUR 1.335 thousand to "Property, Plant and Equipment in the Course of Construction" in 2018 (EUR 703 thousand in 2017).

The Group assesses and calculates the impairment losses and reversals of impairment losses on its property, plant and equipment in accordance with the methods discussed in Note 3.3.

Works of art-

The Group records in this account the works of art owned by it, which are valued at cost less, where appropriate, the corresponding value adjustments arising from the periodic valuation by an independent expert. In 2018, an appraisal was performed by an independent expert, which supported the correct valuation of the works of art.

Works of art are not depreciated, since it is understood that they have an unlimited life and do not suffer depreciation over time. This characteristic of the assets is considered only for tangible fixed assets on the basis of the applicable regulations.

3.3 Impairment of assets

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

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

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

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

3.4 Leases

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

Finance leases

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

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

Operating leases

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

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

In operating leases, the Group assesses the lease contracts and recognises an asset for right of use and a corresponding lease liability in respect of all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and low-value leases (Note 2.2).

Assets with a right to use are initially recognised at cost calculated as the lease payments to be made plus initial direct costs and dismantling/reclamation costs to be considered. Subsequently, the right of use is measured at cost less any accumulated amortisation and any accumulated impairment losses, as appropriate.

Amortisation is calculated by applying the straight-line method to the cost of the asset per right of use. The annual amortisation charge for the right of use is recognised in the consolidated income statement on the basis of the years of estimated useful life based on the term of the contracts.

The recognition of lease liabilities is initially recognised as the present value of the lease payments outstanding at the date. Such payments are discounted using an interest rate implicit in the lease. Subsequently, the financial liability is revalued by increasing its carrying amount on the basis of the finance expense recognised under "Finance Costs" in the consolidated income statement and reducing the amount on the basis of the lease payments made.

3.5 Financial instruments

Financial instruments

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

a) Financial assets at amortised cost: financial assets held in order to collect contractual cash flows, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   This category also includes "Trade and Other Receivables", which are recognised initially at fair value in the consolidated statement of financial position, and are subsequently measured at amortised cost using the effective interest rate. The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph. The Group recognises write-downs for the accounts receivable on the basis of the expected credit losses (see Note 14).

b) Financial assets at fair value through other comprehensive income: financial assets whose objective is both to collect contractual cash flows and their sale, and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The interest, impairment and exchange differences are recognised in profit or loss as in the amortised cost model. Other changes in fair value are recognised in equity items and may be reclassified to profit or loss on their sale.

   However, equity instruments not classified as held for trading may be designated to be measured in this category, although, on the sale of the instrument, the amounts recognised in equity may not be reclassified subsequently to profit or loss, and only dividends may be taken to profit or loss.

c) Financial assets at fair value through profit or loss: this category includes other financial assets not mentioned in the above categories. Financial assets at fair value through profit or loss are initially recognised in the consolidated statement of financial position at the fair value of the consideration given, plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate.

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

The Group recognises an allowance for debts in an irregular situation due to late payment, administration, insolvency or other reasons, after performing a case-by-case collectability analysis. In 2019 the net change in the write-downs of accounts receivable was a charge of EUR 978 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 2019, the Group derecognised receivables totalling EUR 89,769 thousand (31 December 2018: EUR 65.265 thousand) (see Note 2.4). At 31 December 2019, the Group had an unused amount of EUR 37,662 thousand in relation to these agreements (31 December 2018: EUR 15,292 thousand).

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 2019, the Group had transferred assets in which substantially all the risks and rewards of ownership are retained, amounting to EUR 12.589 thousand (31 December 2018: EUR 8,073 thousand) (see Note 18). As of December 31, 2019, the amount of receivables that could have been factored is not significant and was not significant as of December 31, 2018.

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

Cash and cash equivalents

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

Trade and other payables

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

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

Bank borrowings and other financial liabilities

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

Derivative financial instruments

The Group uses derivative financial instruments to hedge the risks to which its future activities, transactions and cash flows are exposed. Basically, these risks relate to changes in exchange rates and interest rates.

In order for these financial instruments to qualify for hedge accounting, they must be initially designated as such and the hedging relationship must be documented. It is necessary to verify at inception and periodically over the term of the hedge that the hedging relationship is effective.

The fair values of certain derivative financial instruments used for hedging purposes are disclosed in Note 15. All of the fair value of a hedging instrument is classified as a non-current asset or liability if the remaining hedged item matures within more than twelve months, and as a current asset or liability if the remaining hedged item matures within twelve months. Held-for-trading derivatives are classified as current assets or liabilities based on their maturity.

The Group uses cash flow hedges.

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

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

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

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

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

3.6 Treasury shares

The treasury shares held by the TUBACEX Group at 31 December 2019 and 2018, which amounted to EUR 8.502 thousand, were recognised at acquisition cost as a reduction of “Equity - Shareholders' Equity” in the consolidated statement of financial position (31 December 2018: EUR 7,850 thousand).

3.7 Inventories

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

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

a. Goods held for resale: at acquisition cost calculated using the weighted average cost method.

b. Raw materials and goods held for conversion: at weighted average cost.

c. Work in progress and finished goods: at weighted average cost of raw and other materials used, including costs directly related to the units produced, as well as a systematically allocated portion of the fixed and variable indirect costs incurred during conversion of the inventories.

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

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

- Raw materials and goods held for processing: replacement cost. However, the Group does not write down raw materials and other supplies if the finished products in which they will be incorporated are expected to be disposed of at or above production cost;

- Goods held for resale and finished goods: estimated selling price less the costs necessary to make the sale;

- Work in progress: the estimated selling price of the related finished goods less the estimated costs of completion and selling costs.

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

3.8 Foreign currency transactions and other obligations

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2.6. The remaining non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at each year-end, and the positive and negative exchange differences between the exchange rate used and the year-end exchange rate were recognised in income. Foreign currency transactions for which the TUBACEX Group decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3.5.

3.9 Current/Non-current classification

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

3.10 Government grants

The Group companies recognise government grants received as follows:

1) Non-refundable grants, donations and legacies related to assets: These are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.

2) Refundable grants: While they are refundable, they are recognised as a liability.

3) Grants related to income: Grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

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

3.11 Employee benefit obligations

Pension obligations

The Group assumed certain obligations to employees which qualify for classification as defined benefit plans. A part of these obligations was covered in prior years by arranging a single-premium insurance policy. At 31 December 2019, these obligations amounted to EUR 6,844 thousand (31 December 2018: EUR 6,301 thousand) and were recognised under "Non-Current Labilities – Employee Benefit Obligations" in the accompanying consolidated statement of financial position (see Note 21).

Other long-term employee benefits

On 25 May 2016, the Company's shareholders approved an incentive plan (in addition to the share-based payment plans described in Notes 3.12 and 16.6) for the members of the Management Committee, who form part of the Tubacex Group's senior management. Also, at the General Shareholders' Meeting held in May 2019, a new incentive plan was approved (in addition to that approved in 2016 and in addition to the share-based payment plans), on the same terms and conditions as those adopted by the General Shareholders' Meeting on 25 May 2016.

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 2019 liabilities arising from these obligations amounting to EUR 1.965 thousand under "Current Liabilities" in the consolidated statement of financial position (31 December 2018: EUR 1, 561 thousand) (see Notes 25).

3.12 Share-based payments

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

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

In the case of equity-settled share-based payments, this fair value is charged on a straight-line basis over the vesting period to "Staff Costs" in the consolidated statement of profit or loss and with a credit to "Other Equity Instruments" in the consolidated statement of financial position (see Note 16.6), based on the Group's estimate of the shares that will eventually vest.

Fair value is measured using the market prices available on the measurement date, taking into account the characteristics of the related plan. If market prices are not available, generally accepted valuation techniques for measuring financial instruments of this nature are used (see Note 16.6).

3.13 Termination benefits

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

3.14 Income tax

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

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

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

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

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

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

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

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

3.15 Provisions and contingencies

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

a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and

b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Group's control.

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

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

Provision for emission allowances-

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

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

- Firstly, using the emission allowances transferred to the Parent's credit account at the National Emission Allowance Registry under a National Allocation Plan. The expense corresponding to this part of the obligation is determined on the basis of the carrying amount of the emission allowances transferred.

- Then the remaining emission allowances recognised are used. The expense corresponding to this part of the obligation is determined using the average price or weighted average cost of these emission allowances.

- Since the Group has sufficient emission rights, it did not need to recognise any additional provisions for the need to acquire additional rights.

3.16 Revenue recognition

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

Sales of goods

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

Interest and dividends

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

3.17 Environmental matters

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

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

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

3.18 Consolidated statement of cash flows

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

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities. The principal revenue-producing activities of the TUBACEX Group companies and other activities that are not investing or financing activities.

- Investing activities. The acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities. Activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

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

3.19 Earnings per share

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

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

At 31 December 2019 and 2018, basic earnings per share coincided with diluted earnings per share, since there were no potential shares outstanding during the years then ended (see Note 23).

3.21 Related party transactions

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

4. Allocation of the loss of the Parent

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

	2019
Negative results from previous years	674.717
Dividends	6.000.000
Total	**6.674.717**

In 2019 the company paid EUR 6 million in dividends charged to profit for 2018 (EUR 3 million in interim dividends for 2018, which were pending payment at 31 December 2018) (see Note 16.8).

5. Financial risk management policy and other

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

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

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

5.1.1 Market risk

5.1.1) Foreign currency risk-

The Group operates in the international market and, therefore, is exposed to foreign currency risk on the transactions performed by it in foreign currencies, particularly the US dollar and Indian rupees, and, as a result of the business combination carried out in India in 2015. 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 2019, had the euro depreciated by 10% against the US dollar, with all other variables remaining unchanged, consolidated loss after tax would have been EUR 4.404 thousand (2018: 2,655 thousand lower (2017: EUR 9,793 thousand lower, without taking into account the hedging policy.

The Group companies use forward foreign currency purchases and sales arranged with banks to hedge the foreign currency risk arising from future commercial purchases of raw materials and sales of products in foreign currencies and recognised assets and liabilities. Foreign currency risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Group's functional currency. The Group's Financial Department is responsible for managing the net position in foreign currencies using external foreign currency forward contracts. Note 12 contains a detail of the forward foreign currency purchase and sale contracts at 31 December 2019 and 201.

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. 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 2019, net assets held in the US amounted to approximately EUR 55,910 thousand (2018: approximately EUR 49,857 thousand), while the net assets held in India amounted to approximately EUR 39.748 thousand (2018: approximately EUR 37,504 thousand) (see Note 2.3). Furthermore, net assets held in the United Arab Emirates, Saudi Arabia and Norway amount to Euros 87,475 thousand at 31 December 2019 (see Note 2.6).

5.1.2) Commodity price risk-

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

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

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

In addition, since December 2019 the Group has arranged commodity futures contracts for the inventories of one of the Group companies.

At 31 December 2019, had the price of nickel risen or fallen by 10%, consolidated purchases would have risen or fallen by approximately EUR 5,359 thousand (2018: approximately EUR 8,532 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 11.246 thousand (2018: approximately EUR 15,275 thousand).

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

5.1.3) Available-for-sale financial assets-

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

5.1.4) Investments in works of art-

The Group is also exposed to market risk due to its investments in works of art, which are recognised under "Property Plant and Equipment" (see Note 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.

5.2 Credit risk

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

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

At 31 December 2019, 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 94,558 thousand (2018: EUR 82,685 thousand). Impairment losses amounting to EUR 5,562 thousand (2018: EUR 6,421 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 2019, the past-due unimpaired committed collection rights recognised under these headings amounted to approximately EUR 31,133 thousand (2018: approximately EUR 24,768 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 2019.

5.3 Liquidity risk

The Group manages liquidity risk prudently by arranging loans with extended maturities and favourable financial conditions, credit lines with extended limits, a portion of which are not drawn down, allowing for the availability of credit in the short term, factoring facilities which help bring forward collections from clients, reverse factoring arrangements which facilitate the management of payments to suppliers, and by diversifying the financing obtained, spreading financial creditors among several banks, the public authority that grants loans from the Spanish Centre for Industrial Technological Development (CDTI), the European Investment Bank, the Official Credit Institute 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.

The Parent's directors consider that there will be no liquidity constraints in the short term (see Note 2.8).

Current income tax liabilities will be settled approximately seven months after 31 December 2019.

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

	Thousands of euros	
	2019	2018
Within 3 months	220.518	154.001
Between 3 and 12 months	26.775	49.287
After 12 months	17	1.361
	247.310	**204.649**

5.4 Cash flow and fair value interest rate risk

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

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

Current and non-current loans and other interest-bearing liabilities at 31 December 2019 amounted to EUR 420,748 thousand (2018: EUR 444,585 thousand). In 2019 the average balance of current bank borrowings was approximately EUR 208 million (20178: approximately EUR 207 million). Taking into account the balance drawn down, a 5% rise or fall in the market interest rates would have given rise to a rise or fall, respectively, of EUR 584 thousand in loss before tax (2018: EUR 789 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 2019 and 2018.

Disclosures on the fair value hierarchy

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

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

- Level 1 - these inputs are based on quoted prices (unadjusted) for identical instruments traded in active markets.

- Level 2 - these inputs are based on quoted prices for similar instruments in active markets (not included in Level 1), quoted prices for identical or similar assets or liabilities in markets that are not active, and techniques based on valuation models for which all the significant inputs are observable in the market or may be corroborated by observable market data.

- Level 3 - the inputs are generally unobservable and, in general terms, they reflect estimates of the market assumptions for determining the price of the asset or liability. The unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

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

6. Segment reporting

6.1 Basis of segmentation

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

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

At 31 December 2019 and 2018, the Group comprised the following operating segments, the main products and services of which are as follows:

- Stainless segment
- Carbon segment

6.2 Basis and methodology for segment reporting

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

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

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

- Seamless stainless steel pipes
- Carbon steel pipes

Segment information about the businesses is presented below:

	Thousands of euros					
	Stainless steel pipe segment		Stainless steel pipe segment		Stainless steel pipe segment	
	2019	2018	2019	2018	2019	2018
Total segment revenue	603.342	610.540	22.782	24.354	626.124	634.894
Depreciation and amortisation charge and impairment losses	(44.066)	(34.936)	(226)	(190)	(44.292)	(35.126)
Inventory write-downs (Note 13)	2.924	27.536	-	-	2.924	27.536
Finance income	1.696	1.343	84	95	1.780	1.438
Finance costs	(13.499)	(15.716)	-	(401)	(13.499)	(16.117)
Share in profits of companies accounted for using the equity method	-	(112)	-	-	-	(112)
Exchange differences	430	236	-	-	430	236
Negative consolidation difference	12.993	-	-	-	12.993	-
Prucurements and Other expenses	(555.338)	(572.887)	(19.622)	(19.967)	(574.960)	(592.854)
Segment profit (loss) before tax	**8.482**	**16.004**	**3.018**	**3.891**	**11.500**	**19.895**
Income tax expense	3.803	(1.421)	(629)	(1.040)	3.174	(2.461)
Profit (Loss) for the year	**12.285**	**14.583**	**2.389**	**2.851**	**14.674**	**17.434**
Segment assets	1.041.870	949.427	41.707	42.567	1.083.577	991.994
Investments accounted for using the equity method	6	240	-	-	6	240
Total segment assets	**1.041.876**	**949.667**	**41.707**	**42.567**	**1.083.583**	**992.234**
Investments in non-current fixed assets	60.004	26.695	212	212	60.216	26.907
Total segment liabilities	**705.606**	**680.900**	**42.336**	**9.569**	**747.942**	**690.469**

The business segments are managed at global level since the Group operates throughout the world, its main markets being Europe, the US and India (see Note 2.6). The main activities in Europe are carried on in Spain, Germany, Austria, France, Italy, the Netherlands and the United Kingdom.

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

The information based on geographical location is as follows:

a) The breakdown of sales by geographical area at 31 December 2019 and 2018 is as follows (in thousands of euros):

Geographical area	2019	%	2018	%
Spain	43.983	7%	65.919	11%
Germany	78.913	13%	55.128	9%
Italy	58.281	9%	48.016	8%
Norway	39.214	6%	27.856	4%
United Kingdom	36.972	6%	24.424	4%
France	23.909	4%	22.564	4%
Netherlands	21.892	4%	11.436	2%
Russia	20.804	3%	15.995	3%
Austria	20.400	3%	20.680	3%
Rest of Europe	19.057	3%	24.027	4%
US	77.718	13%	56.969	9%
Other countries	172.402	28%	249.108	40%
Total sales	**613.545**	**100%**	**622.122**	**100%**

b) The distribution, by geographical area, of net investments in non-current assets at 31 December 2019 and 2018 is as follows (in thousands of euros):

Geographical area	2019	%	2018	%
Spain	190.994	39%	177.753	46%
Rest of Europe	141.918	29%	148.254	38%
India	29.968	6%	27.527	7 %
US	54.548	11%	30.433	8%
Thailand	4.886	1%	3.866	1%
Brazil	336	0%	202	0%
Dubai	61.166	12%	-	0%
Saudi Arabia	7.236	1%	-	0%
Total non-current assets	**491.052**	**100%**	**388.035**	**100%**

7. Intangible assets

The detail of "Intangible Assets" and of the changes therein in 2018 and 2017 is as follows (in thousands of euros):

	Goodwill	Other intangible assets	Greenhouse gas emission allowances	Total
Cost –				
Cost to 01.01.18	**28.383**	**70.051**	**413**	**98.847**
Additions	-	5.692	240	5.932
Retreats	(100)	(8)	(292)	(400)
Conversion differences	-	35	-	35
Cost at 31.12.18	**28.283**	**75.770**	**361**	**104.414**
Additions	-	4.802	464	5.266
Consolidation perimeter inputs (Note 2.6)	-	54.742	-	54.742
Retreats	-	(821)	-	(821)
Conversion differences	-	44	-	44
Cost at 31.12.19	**28.283**	**134.537**	**825**	**163.645**
Accumulated depreciation –				
Accumulated amortization at 01.01.18	-	**(28.266)**	-	**(28.266)**
Endowments	(527)	(5.011)	-	(5.538)
Retreats	-	-	-	-
Conversion differences	-	-	-	-
Accumulated depreciation at 31.12.18	**(527)**	**(33.277)**	-	**(33.804)**
Endowments	(1.373)	(5.162)	-	(6.535)
Consolidation perimeter inputs (Note 2.6)	-	(2.326)	-	(2.326)
Retreats	-	101	-	101
Conversion differences	-	(5)	-	(5)
Accumulated depreciation at 31.12.19	(1.900)	**(40.669)**	-	**(42.569)**
Accumulated impairment at 31.12.2018	**(16.275)**	**(2.400)**	**-**	**(18.675)**
Endowments	-	-	-	-
Accumulated impairment at 31.12.2019	**(16.275)**	**(2.400)**	**-**	**(18.675)**
Net Intangible Assets, 31.12.2018	**11.481**	**40.093**	**361**	**51.935**
Net Intangible Assets, 31.12.2019	**10.108**	**91.468**	**825**	**102.401**

The most significant additions in 2018 related to research and development work in connection with new products or more efficient work methods in the production plants amounting to EUR 4,072thousand (2018: EUR 4,929 thousand) (see Note 3.2).

At the end of 2019 and 2018, there were no firm commitments to purchase intangible assets.

At 2019 year-end the Group had fully amortised intangible assets in use (mostly computer software) amounting to EUR 16,309 thousand (2017 year-end: EUR 12,888 thousand).

7.1 Goodwill

The detail of goodwill is as follows:

2019

	31.12.2018	Amortization and others	31.12.2019
TSS Austria	1.373	(1.373)	-
Tubacex Prakash India Pvt Ltd	10.008	-	10.008
MIS	100	-	100
Total	**11.481**	**(1.373)**	**10.108**

2018

	31.12.2017	Amortization and others	31.12.2018
TSS Austria	2.000	(627)	1.373
Tubacex Prakash India Pvt Ltd	10.008	-	10.008
MIS	100	-	100
Total	**12.108**	**(627)**	**11.481**

Goodwill of Tubacex Prakash India Pvt Ltd

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

As in the case of the test for the impairment of goodwill of SBER, the recoverable amount of this CGU was calculated on the basis of its value in use. These calculations use cash flow projections based on five-year financial budgets approved by management. Management determined the budgeted gross margin for the Indian company on the basis of its expectations regarding the evolution of the market. Specifically, management used as main assumptions significant annual growth in sales volumes and post-tax discount rate used in the cash flow projections of 8.1% and a growth rate equal to a 1.9%.

Based on the estimates and forecasts available to the Group's directors, the projected net cash flows attributable to this cash generating unit support the value of this goodwill, concluding that it is not impaired at 31 December 2019.

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

7.2 Emission allowances

The detail of the fair value at 31 December 2019 and initial value of the non-monetary grants relating to emission allowances received by the Group companies in 2019 and 2018 is as follows:

Thousands of Euros			
2019		2018	
Fair value	Initial value	Fair value	Initial value
203	758	35	240

The detail of the changes in the number of allowances in 2019 and 2018 is as follows:

	Números de derechos
Balances at 31 December 2018	**48.438**
Additions	30.361
Disposals	(39.247)
Balances at 31 December 2019	**39.552**

7.3 Other intangible assets

In 2015 assets arising from the purchase of IBF S.p.A. were recognised at their fair value under "Intangible Assets". Specifically, these assets relate to a brand amounting to EUR 11.7 million; an agreement with a strategic customer to produce a specific product for the amount of EUR 9.6 million; and a customer portfolio (which was fully amortized in previous years), 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.

IBF brand

At the end of 2019 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 2020 and 2023 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 0.89% 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 19,93% (corresponding to a WACC of 7,93% plus a 2% risk premium).

Based on the results of the foregoing test, at 31 December 2019, 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 related to the agreement with the strategic customer, at 31 December 2019 it is associated with 3 orders for a specific product which, at the time of recognition of this asset, it was estimated would be received before 2021, and this asset is being amortised as the different orders are produced. Although management expects that IBF will be awarded the orders in the next few years, at 31 December 2017 there was evidence of a delay in the timetable initially planned at the time of IBF's purchase of these orders, and therefore an impairment loss of 2.4 million euro was recognised in respect of one of the four reactors initially planned.

In 2019, in view of the prospects of a recovery in the nuclear energy market and the situation of the strategic customer to whom this agreement relates, the Group's directors had not considered it necessary to recognise any additional impairment loss.

NTS brand and customer relations

In 2019 (see Note 2.6), as a result of the acquisition of the NTS Group in April 2019, brands and intangible assets associated with "customer relations" were included under "Other Intangible Assets" for EUR 41,799 thousand and EUR 10,617 thousand, respectively, the fair value of which was quantified by an independent expert in the purchase price allocation work. The recognition of these assets gave rise to a deferred liability recognised for the purpose of recording the transaction net of the tax effect.

The main assumptions made for the valuation of the trademarks were as follows

- Projections of sales covering a four-year period.
- The royalty rate used was 3.5%, which is similar to that used by the independent expert at the time of the PPP.
- The flows were discounted at a rate of between 15.4% and 16%.

Customer relations" were valued using the "Multi-Period Excess Earnings Method", which is widely used in financial practice for valuing this type of intangible asset. The main assumptions, among others, made for the valuation of these intangibles were as follows

- Projections of sales based on the Directors' business plan for the first few years and applying a growth rate for the subsequent years based on the rate of inflation, in accordance with the IMF forecasts, in the long term for each of the countries in which the Group operates.
- Churn rate" based on the historical rotation of these customers.
- Contributory asset charge ranging from 10.6% to 15.4%.
- The flows were discounted at a similar rate to that used for discounting the brands, increased by 1.5%.

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 2019 and 2018 is as follows:

	Thousands of Euros						
	Land	Constructions	Technical facilities and machinery	Other facilities, tools, furniture and other immobilized	Artworks (Note 7)	Advances and ongoing	Total
Cost –							
Cost to 01.01.18	**25.892**	**112.740**	**612.409**	**38.659**	**5.550**	**10.911**	**806.161**
Additions	-	33	15.527	3.422	-	7.469	26.451
Retreats	-	-	(246)	(2.792)	(1.162)	(185)	(4.385)
Transfers	-	175	3.637	1.250	-	(5.067)	(5)
Conversion differences	19	341	1.298	189	-	90	1.937
Cost at 31.12.18	**25.911**	**113.289**	**632.625**	**40.728**	**4.388**	**13.218**	**830.159**
Additions	2.588	11.698	13.969	12.459	-	14.236	54.950
IfRS Impact 16 (Note 2.2)	74	3.225	1.711	-	-	-	5.010
Consolidation perimeter inputs (Note 2.6)	-	4.085	14.305	4.791	-	-	23.181
Retreats	-	-	-	(389)	-	-	(389)
Transfers	498	1.139	2.202	4.217	-	(5.531)	2.525
Conversion differences	-	-	(297)	-	-	(68)	(365)
Cost at 31.12.19	**29.071**	**133.436**	**664.515**	**61.806**	**4.388**	**21.855**	**915.071**
Accumulated depreciation –							
Accumulated amortization at 1.01.18	-	**(74.342)**	**(427.631)**	**(31.017)**	-	-	**(532.990)**
Endowments	-	(2.255)	(24.566)	(3.294)	-	-	(30.115)
Retreats	-	-	267	1.623	-	-	1.890
Conversion differences	-	(110)	(829)	(16)	-	-	(955)
Accumulated depreciation at 31.12.18	-	**(76.707)**	**(452.759)**	**(32.704)**	-	-	**(562.170)**
Endowments	-	(1.202)	(23.599)	(11.396)	-	-	(36.197)
IfRS Impact 16 (Note 2.2)		(1.047)	(513)	-	-	-	(1.560)
Consolidation perimeter inputs (Note 2.6)	-	(1.393)	(4.555)	(591)	-	-	(6.539)
Retreats	-	-	-	389	-	-	389
Conversion differences	-	-	(323)	(213)	-	-	(536)
Accumulated depreciation at 31.12.19	**-**	**(80.349)**	**(481.749)**	**(44.515)**	-	-	**(606.613)**
Accumulated impairment at 31.12.2018	-	-	-	-	**(331)**	-	**(331)**
(Endowment)/Reversal of the year	-	-	-	-	-	-	-
Retreats	-	-	-	-	-	-	-
Accumulated impairment at 31.12.2019	-	-	-	-	**(331)**	-	**(331)**
Net assets, net material, 31.12.2018	**25.911**	**36.582**	**179.866**	**8.024**	**4.057**	**13.218**	**267.658**

Investments in property, plant and equipment in 2019 totalled approximately EUR 55 million, compared with EUR 26.4 million in 2018.

The figure for 2019 represents a significant increase over 2018, due mainly to two strategic projects, which will enable the scope of the business to be expanded, both in terms of the range of products and services and from a geographical standpoint.

On the one hand, the incorporation of the company NTS into the Tubacex Group, which is immersed in a process of growth, has required additional investments in production equipment to meet the existing demand within its market niche.

On the other hand, a new production plant is being built in the United States, with several objectives, such as the local presence in a market that imports the vast majority of its demand, and to develop the capacity to manufacture new high added value products, both for the American market and globally.

The rest of the Group's investments have been directed mainly towards the growth of the Indian plant, and to improving the efficiency of the rest of the production plants.

The main additions in 2018 were investments aimed at automating and improving the processes of the umbilical technical installations of the Austrian subsidiary and the purchase of tools from the Alavés Group.

The disposals in 2019 and 2018 relate mainly to items of property, plant and equipment that had been fully depreciated and were no longer in use.

In addition, EUR 2,525 thousand were transferred from inventories to property, plant and equipment in 2019 (see Note 13).

At 31 December 2019 and 2018 the Group had the following investments in property, plant and equipment located abroad (in thousands of euros):

2019

	Gross carrying amount	Accumulated depreciation	Accumulated valuation adjustments
Land and buildings	93.328	(29.498)	-
Plant and machinery	329.444	(222.720)	-
Other items of property, plant and equipment	15.455	(2.101)	-
Property, plant and equipment in the course of construction	4.435	-	-
Total	**442.662**	**(254.319)**	**-**

2018

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

At the end of 2019 and 2018 the Group had fully depreciated items of property, plant and equipment still in use, the detail being as follows (in thousands of euros):

	Gross carrying amount	
	2019	2018
Buildings	56.322	55.660
Plant and machinery	265.012	264.249
Other facilities, tools and furniture	4.529	-
Other items of property, plant and equipment	28.008	25.259
Total	**353.871**	**345.168**

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 2019 and 2018 (the most recent appraisal commissioned by the Parent was in 2018). Works of art are not depreciated since it is considered that they do not suffer decline in value from the passage of time. Pursuant to the applicable regulations, this characteristic applies solely to property, plant and equipment.

Of the Group's property plant and equipment (see Notes 3.1, 7 and 8), at the end of 2019 and 2018 the following items were not being used directly in operations (in thousands of euros):

Descripción	2019			2018		
	Cost	Valuation adjustments	Total	Cost	Valuation adjustments	Total
Works of art	4.388	(331)	4.057	4.388	(331)	4.057

There were no movements in 2019 In 2018 the Group sold works of art for EUR 1,740 thousand, the carrying amount of which was EUR 758 thousand. The gain on the transaction, amounting to EUR 982 thousand, was recognised under other "Other Operating Income" in the consolidated statement of profit or loss for 2018 (see Note 24).

Other disclosures

As indicated in Note 9, at the end of 2019 and 2018 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 2019 or 2018.

At 31 December 2019, the amount payable by the Group to non-current asset suppliers was EUR 613 thousand (31 December 2018: EUR 9,209 thousand), and this amount was recognised under "Trade and Other Payables" in the accompanying consolidated statement of financial position (see Note 20).

At 20189 year-end the Group had firm property, plant and equipment purchase commitments amounting to approximately EUR 2,635 thousand (2018 year-end: EUR 5,183 thousand).

At 31 December 2019 and 2018, the Group had not pledged any items of property, plant and equipment as security for mortgage loans (see Note 18).

In December 2015, the Tubacex Group was granted a loan of EUR 65 million by the European Investment Bank to finance research projects in the period from 2015 to 2019 as part of the European Commission's Horizon 2020 framework programme. The loan was earmarked for financing a portion of the investments amounting to EUR 134 million in property, plant and equipment and intangible assets at the Tubacex Group companies IBF SpA, Schoeller-Bleckman Edelstahlrohr, GmbH, Tubacex Tubos Inoxidables, S.A.U., Acería de Álava, S.A.U. and Tubacex Innovación S.A.U. At 31 December 2017, the Group had drawn down EUR 65 million against this loan. These companies act as guarantors of this loan (see Note 18). At 31 December 2019, the balance outstanding on this loan amounted to EUR 60 million.

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2019 and 2018 these risks were adequately insured.

The Group did not hold any items of property, plant and equipment at fair value at 31 December 2019.

9. Leases

Finance leases

At 31 December 2019, the Group, as the lessee under finance leases, had recognised leased assets with a carrying amount of EUR 1,292 thousand (31 December 2018: EUR 1,355 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 2019 and 2018.

Also, on 14 October 2013, the Parent entered into an agreement with Suelo Industrial Marina Medio Cudeyo, 2006 S.L. for the construction of the industrial building where the Group company Tubacex Services, S.L. carries on its production activity and for the lease with a purchase option on the industrial building and the land on which it is constructed. This lease has a minimum term of 15 years from the date of delivery of the industrial building to the lessee, which can be renewed for three periods of three years each, unless the lessee decides otherwise. The annual rent stipulated in the lease amounts to EUR 187,920.

At 31 December 2019 and 2018, 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	2019	2018
Within 1 year	1.323	1.459
Between 1 and 5 years	4.871	6.194
Total	**6.194**	**7.653**

Operating leases

The main operating leases held by the Group are those relating to the lease of the buildings, warehouses or offices in which certain Group companies operate, as well as vehicle rental contracts, which were not recognised in accordance with IFRS 16 since they are either low-value contracts or have a term of less than 12 months (see Note 2.2).

At the end of 2019 and 2018 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	2019	2018
Within 1 year	491	421
Between 1 and 5 years	225	629
	716	**1.050**

The detail of the operating lease payments recognised as an expense in 2018 and 2017 is as follows (in thousands of euros):

	2019	2018
Minimum lease payments	818	471
Total	**818**	**471**

10. Investments in companies accounted for using the equity method

The detail of the investments accounted for using the equity method at the end of 2018 and 2017 and of the changes therein in 2017 and 2016 is as follows:

2019

	Thousands of euros				
	Beginning balance	Beginning balance	Beginning balance	Beginning balance	Beginning balance
Schoeller-Bleckmann Edelstahlorhr Deutschland Gmbh (Sber)	94	-	-	(94)	-
Schoeller-Bleckmann Tube France (SBTF)	140	-	-	(140)	-
Fundacion EIC Energy Advanced Engineering	6	-	-	-	6
Total	**240**	**-**	**-**	**-**	**6**

2018

	Thousands of euros				
	Beginning balance	Beginning balance	Beginning balance	Beginning balance	Beginning balance
Schoeller-Bleckmann Edelstahlorhr Deutschland Gmbh (Sber)	207	(113)	-	-	94
Schoeller-Bleckmann Tube France (SBTF)	139	1	-	-	140
Fundacion EIC Energy Advanced Engineering	-	-	6	-	6
Total	**346**	**(112)**	**-**	**-**	**240**

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

11. Financial assets

The detail of "Financial Assets" in the consolidated statements of financial position as at 31 December 2019 and 2018 is as follows:

2019

	Thousands of euros			
	31/12/19			
	Fair value through profit or loss	Fair value through other comprehensive income	At amortised cost	Total
Equity instruments	4.297	-	-	4.297
Other financial assets	-	198	714	912
Long-term/non-current	**4.297**	**198**	**714**	**5.209**
Other financial assets	23.647	-	909	24.556
Short-term/current	**23.647**	**-**	**909**	**24.556**
Total	**27.944**	**198**	**1.623**	**29.765**

2018

	Thousands of euros			
	31/12/18			
	Other financial assets at FV through P/L	Available-for-sale financial assets	Loans and receivables	Total
Equity instruments	4.167	-	-	4.167
Other financial assets	-	829	2.057	2.886
Long-term/non-current	**4.167**	**829**	**2.057**	**7.053**
Other financial assets	17.794	-	-	17.794
Short-term/current	**17.794**	**-**	**-**	**17.794**
Total	**21.961**	**829**	**2.057**	**24.847**

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

At the end of 2019 and 2018 the main balances of the two companies in which IBF SpA retained ownership interests were as follows:

Company name	%	Carrying amount 2019	Carrying amount 2018	Share capital	Profit (Loss)	Shareholders' equity
C.F.F. Srl (*)	26%	446	446	47	(422)	(67)
COPROSIDER Srl (*)	25%	39	39	100	273	3.989
Total		**485**	**485**			

(*) Figures from the financial statements as at 31 December 2018.

The heading "Loans to related companies" also includes a loan granted to Coprosider Srl for an amount of EUR 644 thousand (the same amount in 2018).

The Parent had invested a portion of the cash surplus in investment funds and at 31 December 2019 EUR 22.307 thousand (31 December 2018: EUR 13,988 thousand) were recognised under "Current Financial Assets", which generated net finance income due to changes in fair value of EUR 994 thousand (31 December 2018: EUR 1,124 thousand), which was recognised under "Finance Income" in the accompanying consolidated statement of profit or loss for the year ended 31 December 2019.

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

	Miles de Euros					
	2019			2018		
	At fair value through other comprehensive income (*)	Otros	Total	At fair value through other comprehensive income (*)al	Others	Total
Finance income applying the amortised cost method						
Change in fair value	994	786	1.780	1.124	314	1.438
Ganancias.(Pérdidas) netas en pérdidas y Ganancias	**994**	**786**	**1.780**	**1.124**	**314**	**1.438**

12. Derivative financial instruments

The detail of the derivative financial instruments at 31 December 2019 and 2018 is as follows:

Ejercicio 2019

			Thousands of euros			
	Notional amount		Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Amount in thousands	Unit	Non-current
Held-for-trading derivatives	10.113	USD	-	2	-	(189)
Forward sales of USD	1.477	GBP	-	-	-	(73)
Forward sales of GBP	33.246	USD	-	892	-	(115)
Forward purchases of USD			**-**	**894**	**-**	**(377)**
Hedging derivatives						
Cash flow hedges	82.250	Euros	99	-	(96)	(208)
Interest rate swaps	22.724	USD	-	285	-	(143)
Forward sales of USD	2.849	USD	-	82	-	-
Forward purchases of USD	942	GBP				
Forward sales of GBP			-	-	-	(43)
Forward purchase / sales of raw materials		Euros	-	940	-	-
			99	**1.307**	**(96)**	**(394)**
			99	**2.201**	**(96)**	**(771)**

2018

	Notional amount		Thousands of euros			
			Assets		Liabilities	
	Amount in thousands	Unit	Non-current	Current	Non-current	Current
Held-for-trading derivatives						
Forward sales of USD	8,298	USD	-	12	-	(186)
Forward sales of GBP	2,073	GBP	-	14	-	(9)
Forward purchases of USD	43,763	USD	-	846	-	(442)
			-	**872**	**-**	**(637)**
			-	-	-	-
Hedging derivatives			-	-	-	-
Cash flow hedges			-	-	-	-
Interest rate swaps	48,869	Euros	-	-	(261)	(256)
Forward sales of USD	17,250	USD	-	2	(27)	(22)
Forward purchases of USD	42,150	USD	265	474	(420)	(469)
Forward sales of GBP	689	GBP	-	3	-	-
Forward purchase / sales of raw materials		Euros	-	494	-	(205)
			265	**973**	**(708)**	**(953)**
			265	**1,845**	**(708)**	**(1,590)**

These financial instruments are classified in accordance with the value measurement hierarchy established in IFRS 9, depending on the method of valuation, within the category of unquoted prices obtained from observable markets.

12.1 Forward foreign currency purchase and sale contracts

As indicated in Note 2.3, the Group's functional currency is the euro. To manage foreign currency risk, mainly in relation to the US dollar, the Group has arranged various forward foreign currency purchase and sale contracts for its import and export transactions, respectively.

At 31 December 2019, the Group had forward foreign currency sale contracts amounting to EUR 10,431 thousand (20187: EUR 9,361 thousand) that did not qualify for hedge accounting. The notional amount of the foreign currency held for trading was USD 10,113 thousand (2018: USD 8,298 thousand) and GBP 1,477thousand (2018: GBP 2,073 thousand). In all cases, these derivatives were arranged as hedges of foreign currency sales.

The detail at 31 December 2019 and 2018 of the notional amounts of forward foreign currency sale contracts, by residual maturity and currency, is as follows:

	Thousands of euros			
	2019		2018	
	US dollars	Pounds sterling	US dollars	Pounds sterling
Within 1 year	8.770	1.661	7.042	2.319

At 31 December 2019, forward foreign currency sale contracts held for trading show unfavourable valuations of EUR 261 thousand and favourable valuations of EUR 2 thousand (EUR 195 thousand unfavourable and EUR 26 thousand favourable at 31 December 2018). Also, forward foreign currency purchase contracts held for trading show unfavourable valuations of 1,331 thousand euro and favourable valuations of 2 thousand euro (195 thousand euro unfavourable and 1,585 thousand euro favourable at 31 December 2018).

At 31 December 2019, cash flow hedges for the sale of foreign currency were valued at EUR 285 thousand (EUR 5 thousand at 31 December 2018). When the cash flow hedge accounting model was applied, all the change in value of these derivatives was recognised in equity, since the forecast sales covered had not yet been recognised in the balance sheet at year-end. Also, at 31 December 2019, the Group had entered into speculative forward foreign currency purchase contracts with a notional amount of EUR 28.635 thousand (2018: EUR 37,610 thousand). At 31 December 2019, the value of the foreign currency held for speculative purposes was USD 33.246 thousand (31 December 2018: USD 42,763 thousand). In all cases, these derivatives were arranged as hedges of foreign currency purchases.

The detail at 31 December 2018 and 2017 of the notional amounts of forward foreign currency purchase contracts, by residual maturity and currency, is as follows:

	Thousands of euros	
	US dollars	
	2019	2018
Within 1 year	28.635	37.610

At 31 December 2019, forward foreign currency purchase contracts held for trading show favourable valuations of 892 thousand euro and unfavourable valuations of 5 thousand euro (favourable valuations of 846 thousand euro and unfavourable valuations of 442 thousand euro at 31 December 2018).

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

12.2 Commodity futures

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

At 31 December 2019 the Gruop has agreed to buy-sell several nickel futures that have not expired at the year-end. The effect of such futures at 31 December 20189is as follows

- An asset derivative of EUR 940 thousand recognised under “Derivative Financial Instruments”, the related deferred tax liability of EUR 226 thousand recognised under "Deferred Tax Liabilities" and its positive impact on equity of EUR 714 thousand recognised under “Hedges – Valuation Adjustments”.

The fair values of these nickel swaps were estimated by discounting cash flows, taking into account the difference between the market prices of this commodity available in public domain information sources at 31 December and the corresponding guaranteed fixed price in each contract. At 31 December 2018 and 2017, the Group did not have any commodity futures contracts qualifying as hedges.

12.3 Interest rate swaps

The Group uses fixed-for-floating interest rate swaps to manage its exposure to changes in interest rates. The detail of the swaps outstanding at 31 December 2019 and 2018 is as follows:

2019

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
2.000	14/11/2014	14/11/2020	0,36%
4.500	01/11/2017	01/05/2021	0,45%
5.000	20/02/2017	20/05/2021	0,946%
3.750	31/03/2017	31/03/2021	0,995%
3.000	12/08/2015	12/11/2020	0,2425%
3.000	04/06/2019	29/05/2024	0,09%
26.000	20/06/2022	20/06/2027	(0,027%)
30.000	20/01/2020	20/01/2028	0,295%
5.000	16/07/2017	16/07/2021	0,9142%

2018

Notional amount in thousands of euros	Commencement date	Expiry date	Interest rate
7,500	16.07.2017	16.07.2021	0,670%
729	20.11.2014	20.05.2019	0,720%
390	30.09.2014	30.06.2019	0,355%
250	20.06.2014	19.06.2019	0,690%
8,750	17.07.2014	17.07.2019	0,520%
4,000	12.11.2014	16.11.2020	0,360%
7,500	01.11.2017	03.05.2021	0,45%
7,500	22.05.2017	20.05.2021	0,74%
6,250	31.03.2017	31.03.2021	0,755%
6,000	12.08.2015	12.11.2020	0,243%

12.4 Cash flow hedges

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

	Thousands of euros	
	Gains/(Losses)	
	2019	2018
Interest rate swaps:		
- Finance income/costs	(292)	(532)
Foreign currency hedges:		
- Exchange differences	(603)	(4.331)
	(895)	**(4.863)**

The finance costs arising from the interest rate swaps that expired in 2019 were recognised under "Finance Costs" in the accompanying consolidated statement of profit or loss.

The Group includes a credit risk adjustment in order to reflect its own risk and that of the counterparty in the fair value of the derivatives using generally accepted valuation models.

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

13. Inventories

The detail of "Inventories" in the accompanying consolidated statements of financial position as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Goods held for resale	18.407	22.701
Raw materials and other supplies	128.267	126.382
Work in progress and semi-finished goods	79.901	89.093
Finished goods	107.367	95.576
Advances to suppliers	2.095	6.207
Write-downs	(31.041)	(31.502)
	304.996	**308.457**

The changes in raw materials used, other consumables and goods held for resale in 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Raw materials, other consumables and goods held for resale used/sold-		
Net purchases	307.966	356.860
Changes in inventories (*)	(252)	(27.925)
	307.714	**328.935**

(*): The amount of the change in inventories of raw materials, other consumables and goods for resale was calculated taking into account the effect of the transfer of tools from inventories to property, plant and equipment in 2019 amounting to EUR 2,525 thousand (see Note 8).

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

2019

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	16.458	691	(827)	16.322
Work in progress	3.046	927	(1.056)	2.917
Finished goods	11.998	527	(723)	11.802
Inventory write-downs	**31.502**	**2.145**	**(2.606)**	**31.041**

2018

	Beginning balance	Additions	Reversals	Ending balance
Goods held for resale, raw materials and goods held for conversion	15,732	1,726	(1,000)	16,458
Work in progress	2,032	1,014	-	3,046
Finished goods	10,368	6,286	(15)	16,639
Inventory write-downs	**28,132**	**9,026**	**(1,015)**	**36,143**

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

Currency	Thousands of euros	
	2019	2018
US dollar	130.315	145.477
Indian rupee	24.726	24.470
Thailand baht	2.634	2.241

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

14. Trade and other receivables

The detail of "Trade and Other Receivables" in the accompanying consolidated statements of financial position as at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2019	2018
Trade receivables for sales and services	94.558	82.685
Trade receivables from Group companies (Note 26)	272	599
Sundry receivables	5.449	3.631
Tax receivables (Note 22)	16.524	13.140
Current tax assets (Note 22)	2.756	992
	119.559	**101.047**
Less- Write-downs	(5.562)	(6.421)
Total trade and other receivables	**113.997**	**94.626**

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

	Thousands of euros	
	2019	2018
Balance at 1 January	6.421	2.451
IFRS 9 impact	-	2.502
Write-down for uncollectibility (Note 24)	978	1.685
Reversals (Note 24)	(1.837)	(190)
Amounts derecognised	-	(27)
Balance at 31 December	**5.562**	**6.421**

The detail of the tax receivables at 31 December 2019 and 2018 is as follows (see Note 22):

	Thousands of euros	
	2019	2018
Sundry tax receivables:		
VAT refundable	10.881	8.864
Other items	5.643	4.276
	16.524	**13.140**

15. Cash and cash equivalents

The detail of “Cash and Cash Equivalents” in the consolidated statements of financial position as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Cash on hand and at banks	142.611	172.320
	142.611	**172.320**

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

16. Equity and shareholders' equity

16.1 Share capital

At 31 December 2019 and 2018, 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 2019 and 2018, the shareholder Jose María Aristrain de la Cruz held an ownership interest of 11% in the Parent's share capital.

16.2 Share premium

This reserve is unrestricted.

16.3 Revaluation reserve

The detail of the revaluation reserve is as follows:

	Thousands of euros	
	2019	2018
Revaluation reserve Álava Regulation 4/1997	3.763	3.763

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

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

- Offset prior years' losses.

- Increase capital, once the prior years' losses in the consolidated statement of financial position have been offset and the related appropriations have been made to the legal reserve.

- Make appropriations to restricted reserves, using the unused portion of the account balance.

16.4 Other reserves

The detail of "Other Reserves" at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2019	2018
Legal reserve	11.968	11.968
Voluntary reserves:		
Other reserves of the Parent	2.642	24.170
Consolidated reserves	181.549	145.513
Total other reserves	**196.159**	**181.651**

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 2019.

Other reserves of the Parent-

These consist of unrestricted voluntary reserves.

16.5 Treasury shares

At 2019 and 2018 year-end the consolidated Group companies held the following shares of the Parent:

<u>2019</u>

	No. of shares	Par value (thousands of euros)	Average acquisition price (euros)	Total acquisition cost (thousands of euros)
Treasury shares at 2018 year-end	3.361.718	1.513	2,53	8.502

<u>2018</u>

	No. of shares	Par value (thousands of euros)	Average acquisition price (euros)	Total acquisition cost (thousands of euros)
Treasury shares at 2018 year-end	3,142,975	1,414	2.497	7,850

In 2019 the Board of Directors approved the new incentive plan which partially affects treasury shares (see Notes 3.13 and 10.4).

The changes in the Parent's treasury shares in 2009 were as follows:

	31.12.2018	Purchases	(Sales)	31.12.2019
Own shares	7.850	2.384	(1.732)	8.502

16.6 Other equity instruments

On 25 May 2016 the Board of Directors and the Shareholders' Meeting approved a long-term incentive plan (see Note 3.11):

- a programme of options to purchase 500,000 shares for the Chief Executive Officer for two euros each with an exercise date initially set for 31 March 2018.

- granting loans to 9 members of the Management Committee for the acquisition of 1,200,000 shares for 2 euros and an individual limit of 120,000 shares. The loan initially scheduled to mature on 31 March 2018, on which date it should be repaid in full either by payment in cash or by delivery to the Parent of all the shares acquired during the financial year 2016. Tubacex would retain a lien on the shares during the term of the loan and the borrowers would undertake not to dispose of, transfer, dispose of or encumber the shares acquired under the loan except with the prior written consent of the Parent. In the event of termination of the employment relationship with the borrower at the latter's request, this will entail the mandatory early repayment of the loan.

At the General Meeting of Shareholders held in May 2018, it was approved to delay the maturity of the plan to 31 March 2019.

In addition, at the General Meeting of Shareholders in May 2019, it was approved to extend the plan's exercise period to 31 March 2023 or 31 March 2024, the date chosen by the beneficiary.

These stock option programs were materialized through the signing of a contract with the CEO and a series of agreements of identical characteristics with each of the 10 members of the Management Committee.

Additionally, at this same General Meeting, the granting of new long-term incentive plans was approved, both for the Managing Director and the members of the Management Committee for the same amounts and maturities as the previous plan.

For the valuation of these plans, the Parent, through an independent expert, has used binomial trees (Cox, Ross and Rubinstein model), a process which implies that the movements in the share price are composed of a large number of small binomial movements, a model widely used in financial practice for the valuation of transactions, in order to include the effect of market conditions in the valuation of the equity instruments granted. The main assumptions used in the valuation were as follows:

- The five-year interest rate at the valuation date was 0.031%.

- To determine the dividends distributed per share, it was assumed that the dividend yield would be maintained for the following years.

- To determine the volatility of the shares, the historical volatility of the last 260 sessions was used.

- To determine the total cost of the plan and the cost to be allocated in 2019, the Parent's directors considered that

- All the beneficiaries will meet the requirements to receive the shares.

- The vesting period will be until 31 March 2023-2024.

In accordance with the foregoing, it was estimated that the total valuation of the accrued amount of these plans at the year-end was EUR 917 thousand. As described in Note 3.11, the Parent recognises the provision of services by the beneficiaries as a personnel expense on an accrual basis, accruing the fair value of the equity instruments transferred during the term of the plan, which gave rise to a charge of EUR 13 thousand to "Personnel Expenses" in the accompanying income statement for 2019 with a credit to "Other Equity Instruments" in the accompanying equity at 31 December 2019.

16.7 Valuation adjustments

Detail and changes-

The detail of the accounts included in other comprehensive income and of the changes therein in 2019 and 2018 was as follows:

	Thousands of euros			
	Translation differences	Translation differences	Translation differences	Translation differences
Balances at 31 December 2017	**3.653**	**(5.564)**	**1.535**	**(376)**
Income and expense recognised in the year	1.178	166	(43)	1.301
Transfers to profit or loss	-	4.863	(1.264)	3.599
Balances at 31 December 2018	**4.831**	**(535)**	**228**	**4.524**
Income and expenses generated in the year	1.681	218	(53)	1.846
Reclassification to results	-	895	(214)	681
Balances as of December 31, 2019	**6.512**	**578**	**(39)**	**7.051**

As a result of the devaluation of the US dollar and the Indian rupee in 2019, there was a devaluation of net assets in these currencies that had an equity impact of EUR 4,402 thousand. The tax effect relates to cash hedges.

Translation differences-

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

16.8 Dividends and restrictions on the distribution of dividends

The Board of Directors in their meeting celebrated on 19 December 2018, approved an interim dividend of 3,000 thousand euros, which has been totally paid on January 2019. In addition, in 2019 the Group paid a final dividend of EUR 3,000 thousand (see Note 4).

16.9 Capital management policy

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

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

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

The ratios in 2019 and 2018 were calculated by management as follows:

	Thousands of euros	
	2019	2018
Total financial debt (Note 18)	420.748	444.585
Less - Cash and cash equivalents and current financial assets (Notes 11 and 15)	(167.167)	(190.114)
Net debt	**253.581**	**254.471**
Equity	**335.641**	**300.415**
Debt/equity ratio	**76%**	**85%**

The debt/equity ratio decreased in 2019 (see Notes 7 and 11). The Group’s aim in 2020 is to continue reducing the debt/equity ratio by adjusting working capital and through the positive cash flow projections for the coming year.

16.10 Minority interests

The changes in the balance of the Group's minority shareholders according to their ownership interest in the various components of the equity of the following subsidiaries are as follows

	Thousands of euros
Balance as of December 31, 2017	24.583
Recognized income and expenses	
Benefits of exercise	49
Other movements	1.432
Balance as of December 31, 2018	**26.064**
Recognized income and expenses	
Benefits of exercise	3.525
Entrances to the consolidation perimeter (Note 2.6)	36.712
Acquisition of minorities	(17.560)
Other movements	(585)
Balance as of December 31, 2019	**48.156**

The acquisitions of minority interests that have taken place during 2019 are as follows:

IBF, S.p.A.

On 29 January 2019 Tubacex, S.A. acquired 35% of IBF SpA, of which it was already the majority shareholder with the remaining 65%. 11 million, which was paid in full in January 2019. The operation is part of the growth strategy envisaged in the group's strategic plan. As a result of this transaction, the Group recognised a charge to minority interests amounting to EUR 15,689 thousand and a credit to reserves amounting to EUR 4,689 thousand.

Tubacex Upstream Technologies, S.A.

On 14 October 2019, Tubacex, S.A. acquired 8% of the total shares forming the capital of Tubacex Upstream Technologies, S.A. and 20% of the economic rights of the company, of which it was already the majority shareholder with 92% of the shares and 80% of the economic rights. 1 million, although the transaction is at a variable price whose accrual depends on the performance of one of the products that the company expects to market during the years 2024-2034 (payable after the end of each of these years). Based on the directors' best estimate, the Group recognised EUR 2,555 thousand under "Other Non-Current Financial Liabilities" in the consolidated balance sheet at 31 December. As a result of this transaction, the Group has recorded charges to minority interests and reserves amounting to EUR 1,871 thousand and EUR 4,689 thousand, respectively.

17. Provisions

Long-term provisions-

The TUBACEX Group has recognised provisions for the estimated amount of tax debts and probable or certain third-party liability arising from litigation in progress, indemnity payments or obligations of an indeterminate amount and collateral and other similar guarantees, the exact amount of which cannot be determined or whose date of payment is uncertain, since this depends on the fulfilment of certain conditions. EUR 1,650 thousand were recognised in this connection at 31 December 2019 (31 December 2018: EUR 1,050 thousand), which was considered an appropriate amount by the directors following completion in February 2016 of the tax inspection conducted in 2015 (see Note 22.4).

Also, recognised under this heading are provisions for possible environmental damage totalling EUR 626 thousand (31 December 2018: EUR 544 thousand) (see Note 29).

Short-term provisions-

The changes in "Short-Term Provisions" in 2019 and 2018 were as follows (in thousands of euros):

	Current provisions
Balance at 31.12.17	**5.581**
Endowments	4.668
Applications to your purpose	(4.539)
Reversals	(161)
Balance at 31.12.18	**5.549**
Endowments	1.964
Additions to the scope of consolidation (Note 2.6)	706
Applications to its purpose	(1.867)
Reversals	(123)
Balance at 31.12.19	**6.229**

The heading includes provisions for possible contingencies relating to trading relationships totalling EUR 3,586 thousand at 31 December 2019 (31 December 2018: EUR 3,304 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 2019 was used.

Guarantees provided-

The TUBACEX Group has provided bank guarantees amounting to EUR 80,710 thousand (2018: EUR 92,371thousand) to secure the successful completion of certain transactions performed in the ordinary course of its business. Of the total amount of guarantees at 31 December 2019, EUR 51,920 thousand relate to the contract with Iran (see Note 2.4). The Group's directors consider that the probability of a significant liability arising from 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 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Non-current-		
Bank loans	166.588	138.602
	166.588	**138.602**
Current-		
Debt instruments and other marketable securities	131.550	144.698
European Investment Bank (Note 2-h)	8.125	5.000
Short-term credit lines and loans	67.622	96.608
Short-term maturities of long-term loans	32.682	50.246
Discounted bills and notes	805	1.064
Import and export financing	11.785	7.009
Interest	1.591	1.358
	254.160	**305.983**

As in prior preriods, the Tubacex Group has renewed a commercial paper issue programme through its Parent in the Alternative Fixed-Income Market (MARF), which matured in a maximum of twelve months and had a limit of EUR 150 million. EUR 131.550 thousand were payable in this connection at 31 December 2019 (31 December 2018: EUR 144,698 thousand), and this amount bears interest at approximately 0.57% (the amount payable at 31 December 2018 bore interest at approximately 0.62%). 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 1,575 thousand (2018: EUR 773 thousand), which was recognised under "Finance Costs" in the accompanying consolidated statement of profit or loss.

Also, in 2015 an agreement was reached with the European Investment Bank to finance investments amounting to EUR 65 million (see Note 12), the full amount of which was drawn down at 31 December 2019 and a balance of EUR 60 million was outstanding at 31 December 2019. In addition to this agreement, there are a number of clauses that the directors consider to have been fulfilled at 31 December 2019.

Also, in December 2018 the Group entered into an agreement with Compañía Española de Financiación del Desarrollo (COFIDES) to finance investments totalling EUR 30 million (see Note 12), which had been drawn down in full at 31 December 2019. This contract is subject to certain clauses which are the same as those included in the agreement described above with the European Investment Bank and are therefore fulfilled at 31 December 2019.

Finally, during the first half of 2019 the Group obtained new financing of Euros 30 million from Instituto de Crédito Oficial, E.P.E. "ICO" to finance the acquisition of the NTS ME Group (Group acquired through its investee Tubacex Upstream Technologies, S.A., see Note 9). This loan matures in 8 years and is classified under non-current liabilities in the accompanying balance sheet. There are a number of clauses attached to this agreement which are the same as those included in the previous agreements and, therefore, at 31 December 2019 they are fulfilled.

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 + 1.61% in 2019 (2017: Euribor + 1.75 %).

The detail of the remaining maturities of the loans and other interest-bearing liabilities under the related agreements at 31 December and 2019 and 2018, is as follows:

Maturity	Thousands of euros 2019	Thousands of euros 2018
Within 1 year	254.160	305.983
Within 2 years	33.778	36.107
Within 3 years	30.625	21.367
Within 4 years	27.505	15.003
Within 5 years	21.305	16.125
Other	53.375	50.000
	420.748	**444.585**

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

	2019		2018	
	Limit	Undrawn amount	Limit	Undrawn amount
Foreign trade credit facilities	27.800	16.015	21.450	14.441
Credit facilities	118.049	48.837	114.340	16.374
Total	**145.849**	**64.852**	**135.790**	**30.815**

The approximate effective weighted average interest on the credit facilities in 2019 was Euribor plus a spread of 1.17% (2018: a spread of 1.5%).

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 2019 and 2018 is as follows:

	Thousands of euros 2019	Thousands of euros 2018
Non-current-		
Loans repayable at long term	835	1.327
Other	14.999	6.024
	15.834	**7.351**
Current-		
Others	13.151	-
	13.151	-
	28.985	**7.351**

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 heading "long-term repayable loans" is recorded as the long-term finance lease of the building in which the subsidiary Tubacex Services S.L. carries out its activity, for an amount of Euros 1,289 thousand (Euros 1,570 thousand) (see Note 9).

At 31 December 2019 "Other long-term" includes a loan granted by the Basque Institute of Finance amounting to Euros 3,993 thousand (Euros 4,573 thousand in 2018), recorded under Other non-current and current liabilities for Euros 3,406 thousand and Euros 587 thousand respectively, which will mature in 2028 (Euros 3,993 thousand and Euros 580 thousand in 2018). This heading also includes the liability relating to the variable price for the acquisition of shares from minority shareholders of the subsidiary Tubacex Upstream Techonologies, S.L. amounting to Euros 2,555 thousand (see note 16.10). Of the balance recorded under this heading, Euros 1,837 thousand relates to the debt with the minority shareholder of the NTS Group acquired in April 2019 (see Note 6.2) and Euros 3,575 thousand relates to liabilities generated by the entry into force of IFRS 16 (see Note 2.2).

Other short-term" includes a loan obtained from a non-financial institution amounting to EUR 8 million and the contingent consideration associated with the acquisition of the NTS Group amounting to EUR 5 million (see Note 2.6).

20. Trade and other payables

The detail of "Trade and Other Payables" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Trade payables:		
Third parties	206.755	163.095
	206.755	**163.095**
Other payables-		
Remuneration payable	13.777	15.034
Payable to public authorities (Note 22)	14.893	14.687
Other	11.625	11.591
	40.295	**41.312**
Current tax liabilities (Note 22)	260	242
	247.310	**204.649**

The heading "Trade payables - third parties" includes the amount advanced by suppliers through the financial instrument of confirming, which is the main means of payment used by the company.

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:

	Ejercicio 2019	Ejercicio 2018
Average period of payment to suppliers Ratio of transactions settled	89	79
Ratio of transactions not yet settled	81	75
Total payments made	119	96
Total payments outstanding	285.496	418.647
Average period of payment to suppliers	79.620	112.263

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 2019 and 2018 were as follows (in thousands of euros):

	Long-term defined benefit obligations (Note 3.11)	Other long-term employee benefits (Note 3.11)	Other	**Total**
Balances at 31 December 2017	**6.665**	**1.386**	**612**	**8.663**
Reversals	(11)	(58)	-	(69)
Expense for the year (Note 25)	322	1.097	291	1.710
Benefits paid	(675)	(864)	(104)	(1.643)
Balances at 31 December 2018	**6.301**	**1.561**	**799**	**8.661**
Reversals	(88)	-	(51)	(139)
Expense for the year (Note 25)	1.115	317	139	1.571
Entries in the scope of consolidation	703	236	-	939
Paid benefits	(1.187)	(149)	(239)	(1.575)
Balances at 31 December 2019	**6.844**	**1.965**	**648**	**9.457**

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 6,844 thousand for 31 December 2019 (31 December 2018: EUR 6,301 thousand).

The discount rate applied was 1.95% (2018: 1.5%) and the salary increase rate assumption was 2.6% (2018: 3%).

Other long-term employee benefits

As indicated in Note 3.11, on 25 March 2013 the Parent's Board of Directors approved an incentive plan for the members of the Group's Management Committee who form part of the Group's senior management (see Note 25), which includes the right to receive a multiannual bonus to be calculated as a percentage of the increase in the company’s value between 31 December 2012 and 31 December 2017.

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

According to the Directors' best estimates, the accrued liability at 31 December 2018 for these items amounted to EUR 3 million, recorded under "Other accounts payable" - of current liabilities, and no amount was accrued at 31 December 2019.

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

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

22. Tax matters

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

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

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

- The introduction of a quantitative limit on the offset of tax losses of 50% of the taxable profit before offset of tax losses (at present, the only quantitative limit on the offset of tax losses is the taxable profit of taxpayer), although the time limit for offset is extended to 30 years (at present it is 15 years). These limitations will be applicable from 2018, and will apply to the tax loss carryforwards arising in years prior to the entry into force of the reform;

- The reduction of the standard tax rate from 28% to 24%, with a transitional rate of 26% applicable in 2018.

- The reduction of the quantitative limit applicable to tax credits to incentivise the performance of certain activities, excluding tax credits for research and development and technological innovation, from 45% to 35% of the net tax payable, although the time limit for their use is extended from 15 to 30 years. As in the case of the tax losses, this amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;

- The introduction of a quantitative limit of 70% of the net tax payable applicable to the use of tax credits -there was no limit prior to the reform- although the time limit for their use is extended from 15 to 30 years. Should the taxpayer take in the same income tax return tax credits affected by the 35% limit of the net tax payable and tax credits affected by the 70% limit of the net tax payable, the latter tax credits must be taken with the quantitative limit of 70% of the net tax payable after having taken the tax credits affected by the 35% limit. This amendment would be applicable from 2018, and would also apply to tax credits reported by the taxpayer in the years prior to the entry into force of the reform;

- The extension of the time limit to take the double taxation tax credits from 15 to 30 years. As in the case of the other tax credits, the extension of the time limit to take these tax credits is applicable from 2018, and would also apply to double taxation tax credits reported by the taxpayer in the years prior to the entry into force of the reform. The reform has not introduced any quantitative limit on the use of double taxation tax credits and, therefore, the only limit applicable thereto will be the taxpayer’s gross tax payable;

- The introduction of the obligation to make a tax prepayment of 5% of the taxable profit of the last year, the deadline for filing the tax return of which ended on 1 October of the year in progress; and

- The increase of the minimum tax rate from 13% to 17% of taxable profit (transitional rate of 15% in 2018).

The effects arising from these changes have been recognised prospectively in the year in which they were approved, 2018. Companies not included in the consolidated tax Group are taxed individually according to the tax rates for each country.

22.1 Current receivables from and payables to public authorities

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

	Miles de Euros	
	2019	2018
VAT refundable (Note 14)	10.881	8.664
Other receivables (Note 14)	5.643	4.476
Current tax assets	2.756	992
Total receivables from public authorities	**19.280**	**14.132**
VAT payable	8.981	7.241
Accrued social security taxes payable	2.850	2.954
Personal income tax withholdings payable	2.242	2.044
Other payables	820	2.448
Income tax payable	260	242
Total payables to public authorities	**15.153**	**14.929**

22.2 Reconciliation of the accounting loss to the tax loss

The consolidated income tax expense recognised in 2019 and 2018 was as follows:

	Miles de Euros	
	2019	2018
Current tax	1.240	5.832
Deferred taxes-		
Origination and reversal of temporary differences	(4.414)	(3.371)
	(3.174)	**2.461**

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

	Miles de Euros	
	2019	2018
Consolidated loss before tax	11.500	19.895
Cumulative income tax expense at the tax rate of the Parent (24%) (2018: 26%)	2.760	5.095
Permanent differences and consolidation adjustments	(1.520)	724
Difference due to tax rates of subsidiaries	(1.525)	-
Current year tax credits and tax relief	(2.247)	(2.176)
Adjustment of prior years' taxes	(642)	(1.182)
Total consolidated tax expense (benefit) recognised	**(3.174)**	**2.461**

The regularisation of previous years recorded in 2018 comes from the activation of deductions for 2017 in the Alava tax consolidation.

The nature of the tax credits recognised in 2019 is as follows:

	Thousands of euros	
	2019	2018
Investments in new non-current assets and research and development	2.247	2.176
	2.247	**2.176**

22.3 Deferred tax assets and liabilities

The detail at 31 December 2019 and 2018 of the deferred tax assets and liabilities is as follows:

	Thousands of euros			
	Liabilities		Liabilities	
	2019	2018	2019	2018
Due to provisions and other items	16.471	16.207	(8.604)	(5.606)
Tax loss carryforwards	32.890	25.042	-	-
Unused tax credits and tax relief	25.785	24.888	-	-
Revaluation of assets (Note 2-f)	-	-	(10.740)	(8.771)
	75.146	66.137	(19.344)	(14.377)
Derivative financial instruments	64	228	-	-
	75.210	**66.365**	**(19.344)**	**(14.377)**

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

- The Group considers it more than likely that sufficient profits will be made in the future to enable it to offset the tax loss carryforwards recognised and, in this connection, the plan drawn up by the Group forecasts an increase in productivity, in sales volumes and, accordingly, in the profitability of the Group's core business. The Group will go ahead with the strategic investments envisaged in its 2018-2022 Strategic Plan, with the consolidation of new high-value-added products in the oil, gas, electricity production and nuclear energy industries, which ensure a highly robust competitive position, now that the international crisis has been overcome.

- The business plan used by the Group to make the estimates that justify and support the recoverability of its deferred tax assets is in line with the market scenario and the specific features of the business. The outlook, by tax business unit, would be as follows:

  - In turn, there is no time limit for the recovery of the tax assets generated in Austria in the amount of EUR 19.1 million (31 December 2018: EUR 17.9 million), the recovery of which is linked to compliance with the Industrial Plan explained in Note 7.

  - The tax assets generated in Italy EUR, 8,2 million (31 December 2018: EUR 7,5 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		Assets	
	2019	2018	2019	2018
Due to provisions and other items	264	1.076	-	-
Due to other items	(164)	7.677	(2.998)	1.704
Tax loss carryforwards	7.848	(7.840)	-	-
Unused tax credits and tax relief	897	(3.781)	-	-
Revaluation of assets included in the scope of consolidation (Note 2.6)	-	-	(1.969)	567
Total	**8.845**	**(2.868)**	**(4.967)**	**2.271**

The increase in deferred tax assets is mainly due to losses generated in Group companies during 2019. Likewise, deferred tax liabilities have increased mainly due to the investments made in the new plant in the USA.

At 31 December 2019, the deferred tax liabilities recognised as a result of the business combination with NTS Group amounted to EUR 2,473 thousand (see Note 2.6).

Tax loss carryforwards

The detail of the tax loss carryforwards recognised in the accompanying consolidated statements of financial position as at 31 December 2019 and 2018 is as follows:

Year incurred	2019	2018
2010	1.088	1.028
2011	6.398	6.398
2012	673	673
2013	841	841
2015	1.943	1.841
2016	5.414	5.350
2017	6.366	5.611
2018	4.009	3.300
2019	6.158	-
	32.890	**25.042**

Of the total tax loss carryforwards, EUR 4 million were incurred at Álava companies prior to forming part of the consolidated tax group the last year for offset of which is 2028. Also, the Austrian subsidiary has recognised EUR 17 million of tax loss carryforwards the recovery of which is not subject to any time limit under the tax legislation of that country. Lastly, the Italian subsidiary has incurred EUR 5 million of tax loss carryforwards in the last 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 2019 and 2018, all of which were generated at the consolidated tax group in Álava, is as follows:

Year generated	2019	2018	Last year for deduction
2001	11	12	2028
2002	12	11	2028
2003	5	5	2028
2004	281	280	2028
2005	49	1.059	2028
2006	587	650	2028
2007	710	710	2028
2008	939	940	2028
2009	2.028	2.028	2028
2010	2.633	2.633	2028
2011	4.001	4.002	2028
2012	2.853	2.853	2028
2013	4.588	4.570	2028
2014	-	153	2029
2015	668	87	2030
2016	238	672	2031
2017	2.051	2.131	2032
2018	2.075	2.092	2033
2019	2.056	-	2034
	25.785	**24.888**	

The tax credits generated prior to 2013 (EUR 14,098 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 4,174 thousand relate to double taxation tax credits and EUR 5,436 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 2019 and 2018, is as follows:

	Thousands of euros	
	2018	2018
Cash flow hedges (Note 12)	(267)	(1.307)

22.4 Years open for review and tax audits

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2019 year-end part of the Group had 2013 and subsequent years open for review by the tax authorities for income tax, VAT and direct personal income tax withholdings from residents, and the last four years open for all other taxes applicable to it. All the tax credits and tax losses arising in prior years may be reviewed with a ten year statute-of-limitations when they are used in any of the years open for review. However, the taxes for the years of the companies that were subject to the tax audit that was completed in February 2016 are not open for review. The following taxes were subject to the audit:

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

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

Pursuant to the income tax legislation in Álava where the Parent is domiciled, if under the applicable rules for calculating the tax base the latter is negative, its amount may be offset without any time limit in Álava and Vizcaya (18 years initially and successively after the year in which the loss was incurred at companies with registered offices in other parts of Spain except for Guipúzcoa and Navarre), for which the amount may be apportioned in the proportion deemed fit. The tax loss will be offset when the income tax return is filed, without prejudice to the tax authorities' inspection powers. However, with effect from 1 January 2014, on the approval of Álava Income Tax Regulation 37/2013, of 13 December, a 15-year time limit was established for offsetting tax losses (those generated both prior and subsequent to the date of entry into force of the Regulation). The Group's directors consider that this tax legislation does not have an impact on the recoverability of the tax loss and tax credit carryforwards that it had recognised at 31 December 2019, 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 2019, despite the various appeals filed in this connection, on which a final decision has not yet been issued.

23. Earnings per share

23.1 Basic earnings per share

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

	2019	2018
Earnings attributable to the Parent's ordinary shareholders	14.674	17.434
Number of ordinary shares in circulation (Nota 16)	129.617.064	129.835.807
Basic earnings per share (euros)	0,1132	0,1343

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

	2019	2018
Common Shares Outstanding	132.978.782	132.978.782
Effect of treasury shares (Note 16)	(3.361.718)	(3.142.975)
Number of ordinary shares in circulation	**129.617.064**	**129.835.807**

23.2 Diluted earnings per share

Diluted earnings per share are calculated by attaching the weighted average number of ordinary shares outstanding to reflect the conversion of all diluted potential ordinary shares.

	2019	2018
Gains/(Losses) attributable to shareholders Society's ordinary	14.661	17.574
Number of ordinary shares in Circulation (Note 16)	133.017.064	131.535.807
Diluted earnings/ (losses) per share (euros)	0,1102	0,1336

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

	2019	2018
Ordinary shares outstanding	132.978.782	132.978.782
Effect of Own Actions (Note 16)	(3.361.718)	(3.142.975)
Effect of stock option programs (Note 16)	3.400.000	1.700.000
Number of ordinary shares outstanding	**133.017.064**	**131.535.807**

24. Other operating income and expenses

The detail of "Other Operating Income" in the accompanying consolidated statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2018	2018
Grants related to income	2.753	308
Transfer of grants to profit or loss (Note 3.1)	23	165
Other income	4.904	8.593
	7.680	**9.066**

In 2018,"Other Income" included, works of art by Tubacex, S.A. (see Note 8), which generated income of EUR 982 thousand, also included EUR 600 thousand for the reversal of a tax contingency.

The detail of "Other Operating Expenses" in the accompanying consolidated statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Operating lease expenses	4.425	2.226
Repair and upkeep expenses	34.173	22.341
Independent professional services	8.039	13.521
Transport	23.956	19.200
Insurance premiums	2.159	5.781
Utilities	15.922	38.632
Taxes other than income tax	30.401	26.258
Other expenses	1.966	2.160
Change in operating allowances (Note 14)	3	328
	121.044	**130.447**

25. Staff costs

The detail of "Staff Costs" in 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Wages, salaries and similar expenses	106.931	94.322
Contributions to pension plans	2.103	1.800
Social security costs	31.518	31.757
Other employee benefit costs	6.088	1.918
Provisions for employee benefits and long-term incentive plan (Notes 16-f and 21)	(438)	3.675
	146.202	**133.472**

The balance of "Provisions for Employee Benefits and Long-Term Incentive Plan" recorded at 31 December 2018 related mainly to the amount provided for in relation to the achievement of the objectives of the multi-year bonus plan (see Note 3.11). Also, the Group reversed the amount corresponding to the excess provision recorded at the end of 2018 during 2019, and no amount was accrued at 31 December 2019.

The average number of Group employees, by professional category, in 2018 and 2017 was as follows:

Professional category	2019	2018
Senior executives	10	10
Line personnel and middle management	358	286
Clerical staff	453	439
Manual workers	1.732	1.648
Total	**2.553**	**2.383**

Also, the distribution of the workforce, by gender and category, at the end of 2019 and 2018 was as follows:

	2019		2018	
Professional category	Men	Women	Men	Women
Senior executives	10	-	10	-
Graduates	136	51	128	47
Line personnel and middle management	175	57	172	52
Clerical staff	307	131	295	121
Manual workers	1.664	99	1.509	119
Total	**2.292**	**338**	**2.114**	**339**

At 31 December 2019, the Parent's Board of Directors comprised 4 women and 8 men (31 December 2018: 3 women and 9 men).

The total number of Tubacex Group employees with disabilities in 2019 was 25 people (18 people in 2018).

26. Related party transactions and balances

Related party transactions

The detail of the transactions with related parties in 2018 and 2017 the effects of which were not eliminated on consolidation (see Note 10) is as follows:

2019

	Revenue	Procurements	Other income	Other operating expenses	Financial expenses
CFF SRL	22	126	-	-	-
Coprosider	392	62	3	2	4
	414	**188**	**3**	**2**	**4**

2018

	Revenue	Procurements	Other operating expenses	Financial expenses
Schoeller-Bleckmann Group	-	-	128	-
CFF SRL	15	-	143	-
Coprosider	381	223	23	5
Frontier Solutions	-	-	1,133	-
	396	**223**	**1,427**	**5**

Related party balances

The detail of the related party balances in the consolidated statements of financial position as at 31 December 2019 and 2018 is as follows (in thousands of euros):

2019

	Balances Receivable			Balances Payable
	Short-term loans (Note 11)	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
CFF SRL	-	-	8	(12)
Coprosider	-	644	54	(16)
SBTechnisches	-	70	-	-
Awaji Materia	909	-	-	-
Otros	-	-	210	-
	909	**714**	**272**	**(28)**

2018

	Balances receivable		Balances payable
	Other non-current financial assets (Note 11)	Trade and other receivables (Note 14)	Trade and other payables (Note 20)
Schoeller-Bleckmann Group	-	13	-
CFF SRL	-	5	(136)
Coprosider	644	86	(128)
Frontier Solutions	84	203	(96)
Awaji Materia	909	-	-
Other	419	292	-
	2,056	**599**	**(360)**

27. Remuneration of executives

The remuneration earned by the key executives in the years ended 31 December 2019 and 2018 was as follows:

	Thousands of euros	
	2019	2018
Current employee remuneration, executives	2.643	2.511
Post-employment benefits	111	143
	2.754	**2.654**

	Thousands of euros	
	2018	2017
Current employee remuneration, executives	2,511	2,220
Post-employment benefits	143	129
	2,654	**2,349**

At 31 December 2018 and 2019 and 2018, the Group's senior executives did not have any balances relating to advances or loans. "Post-Employment Benefits" relate mainly to contributions to a defined contribution plan at an employee benefit entity (EPSV).

At 31 December 2018, an interest-free loan of USD 50 thousand which matures in two years was granted to a senior executive, which has been amortized in the year 2019.

28. Disclosures relating to the Parent's directors

28.1 Remuneration of and balances with the Parent's directors

In 2019 the members of the Board of Directors earned remuneration amounting to EUR 862 thousand (2018: EUR 851 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 2019 amounted to EUR 777 thousand (2018: EUR 1.767 thousand), of which EUR 42 thousand related to post-employment benefits (primarily contributions to a defined contribution plan at an employee benefit entity) (2018: EUR 42 thousand).

Lastly, in 2019, as in 2018, 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 2019 and 2018, the directors did not have any balances relating to advances or loans from the Group.

At 31 December 2019 and 2018, 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 30 thousand in 2019 (2018: EUR 28 thousand) relates to the directors' third-party liability insurance policy.

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

In 2019 the Parent's directors did not perform any transactions with the Company or the Group companies that were outside the normal course of business or were not on an arm's length basis.

28.3 Ownership interests and positions held in other companies by the Parent's directors and persons related to them

At the end of 2019, 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 2019, the Group made investments for a net amount of approximately EUR 2,064 thousand (2018: EUR 1,841 thousand) and incurred expenses of EUR 1,550 thousand (2018: EUR 1,218 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 2019 or 2018.

At 31 December 2019, except for a provision totalling EUR 626 thousand recognised under "Long-Term Provisions" in the accompanying consolidated statement of financial position (2018: EUR 544 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 2019 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):

	2019	2018
Audit services	522	482
Other attest services	35	15
Total audit and related services	**557**	**497**
Tax advisory services	193	187
Other services	3	33
Total audit and related services	**753**	**717**

In addition, other auditors have invoiced 184 thousand euros (189 thousand euros in 2018) for audit services, 35 thousand euros for tax advisory services and 104 thousand euros for other services.

31. Events after the reporting period

On 31 January 2020, in exercise of the option provided for in the original purchase agreement, the Parent's Board of Directors approved the acquisition of 32.47% of the share capital of Tubacex Prakash from the minority shareholder Prakash Steelage Ltd for EUR 10.5 million, payable in the first quarter of 2020.

Except as mentioned above, no economic events have occurred after the end of the year ended 31 December 2019 that would significantly affect the accompanying consolidated financial statements of the TUBACEX Group.

32. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

TUBACEX, S.A. AND SUBSIDIARIES

INFORMATION RELATING TO THE SUBSIDIARIES IN THE YEAR ENDED 31 DECEMBER 2019

Company	Location	Line of business	Auditor	Percentage of ownership			Thousands of euros					
				Direct	Indirect	Total	Share capital	Reserves and other equity items	Profit (Loss)	Interim dividend	Profit (Loss) from operations	Total shareholders' equity
Acería de Alava, S.A.U.	Álava (Spain)	Manufacture of steel	Deloitte	100,00	-	100,00	7.300	52.573	12.560	-	13.213	72.433
Tubacex Services Solutions Holding S.L.U.	Álava (Spain)	Marketing of tubes		100,00	-	100,00	31.183	4.475	(19)	-	(19)	35.639
Tubacex Services Solutions, S.A.U.	Álava (Spain)	Marketing of tubes	Deloitte	-	100,00	100,00	1.142	11.147	(1.703)	-	(1.196)	10.586
Tubos Mecánicos, S.A.U. (Subgroup)	Barcelona (Spain)	Manufacture and marketing of carbon steel tubes	Deloitte	-	100,00	100,00	5.437	27.562	3.017	-	2.934	36.016
Tubos Mecánicos Norte, S.A.U,	Álava (Spain)	Marketing of carbon steel tubes	Deloitte	-	100,00	100,00	Incluido en Subconsolidado “Tubos Mecánicos”					
Tubacex America Inc	Houston (US)	Marketing of tubes	n/a	-	100,00	100,00	1	3.957	1.238	-	1.644	5.196
Tubacex Services Solutions France, S.A.S.	Soissons (France)	Marketing of tubes	Deloitte	-	100,00	100,00	500	3.165	643	-	951	4.308
Tubacex India Pvt Ltd	India	Marketing	n/a	-	100,00	100,00	550	(431)	385	-	524	504
Tubacex Services Solutions Do Brasil Participacoes Ltda	Sao Paulo (Brasil)	Marketing of tubes	n/a	-	100,00	100,00	1.068	(717)	(162)	-	(200)	189
Tubacex Services Solutions Austria Gmbh	Ternitz (Austria)	Marketing of tubes	n/a	100,00	-	100,00	35	2.357	1.012	-	1.204	3.404
Tubacex Service Solutions Middle East, FZCO	Dubai (United Arab Emirates)	Marketing of tubes	n/a	-	51,00	100,00	2.930	133	232	-	232	3.295
CFT Servicios Inmobiliarios, S.A.U.	Álava (Spain)	Marketing of tubes	n/a	100,00	-	100,00	60	1.099	-	-	-	1.159
Red Distribuidora de Tubos y Accesorios, S.A.U. (R.T.A.)	Álava (Spain)	Marketing of tubes	n/a	100,00	-	100,00	76	4.906	143	-	76	5.125
Schoeller – Bleckmann Edelstahlrohr Inmobilien GmbH	Ternitz (Austria)	Property development	Deloitte	100,00	-	100,00	70	4.600	32	-	10	4.702
Schoeller – Bleckmann Edelstahlrohr GmbH (Subgroup)	Ternitz (Austria)	Manufacture and marketing of tubes	Deloitte	100,00	-	100,00	3.500	43.622	645	-	1.395	47.767
Schoeller – Bleckmann Technisches Service GmbH	Ternitz (Austria)	Technical assistance services	Deloitte	-	100,00	100,00	Incluido en Subconsolidado “Schoeller – Bleckmann Edelstahlrohr GmbH”					
Schoeller – Bleckmann Technisches Service GmbH & Co. KG	Ternitz (Austria)	Technical assistance services	Deloitte	-	100,00	100,00	Incluido en Subconsolidado “Schoeller – Bleckmann Edelstahlrohr GmbH”					
Schoeller – Bleckmann Edelstahlrohr Deutschland GmbH	Düsseldorf (Germany)	Marketing of tubes	Deloitte	100,00		100,00						26
Schoeller – Bleckmann Tube France	Paris (France)	Marketing of tubes	Deloitte	100,00		100,00						38
Tubacex Taylor Accesorios, S.A.U.	Álava (Spain)	Manufacture of components	Deloitte	100,00	-	100,00	8.891	1.219	427	-	462	10.537
Tubacex Tubos Inoxidables, S.A.U.	Álava (Spain)	Manufacture and marketing of tubes	Deloitte	100,00	-	100,00	15.028	51.869	(17.407)	-	(16.139)	49.490
Tubacex Innovación AIE	Álava (Spain)	Innovation	n/a	91,67	8,33	100,00	6	327	(107)	-	(61)	226
Tubacoat, S.L.	Vizcaya (Spain)	Industrial development and marketing of long steel products	n/a	100,00	-	100,00	60	407	(393)	-	(347)	74
Tubacex Services, S.L.	Cantabria (Spain)	Manufacture and marketing of special steel tubes	Deloitte	81,00	-	81,00	3.704	1.751	(240)	-	(143)	5.215
IBF SpA (Subgroup)	Italy	Manufacture of high-end fittings	Deloitte	100,00	-	100,00	15.000	26.836	(3.508)	-	(2.717)	38.328
Tubacex Awaji Thailand	Thailand	Manufacture of fittings	n/a	-	60,00	60,00	Incluido en Subconsolidado “IBF SpA”					
Tubacex Prakash India Pvt Ltd	India	Manufacture and marketing of special steel tubes	Deloitte	67,53	-	67,53	1.413	36.097	1.734	-	2.604	39.244
Fundación Tubacex	Vizcaya (Spain)	Social Promotion	n/a	100,00	-	100,00	500	(407)	(99)	-	(99)	(6)
Tubacex Upstream Techonologies S.A.	Vizcaya (Spain)	Manufacture and marketing of special steel tubes	n/a	100,00	-	100,00	1.000	9.033	(2.400)	-	(1.486)	7.633
NTS Middle East, FZCO	Dubai (United Arab Emirates)	Mechanical repair of drilling tools	Crowe	-	49,00	40,00	2.487	37.260	2.482	-	8.110	42.229
Promet AS	Tananger (Norway)	Precision engineering	Crowe	-	49,00	40,00	Incluido en Subconsolidado “NTS Middle East FZCO"					
NTS Saudi Company LTD.	Al Khobar (Saudi Arabia)	Mechanical repair of drilling tools	Crowe	-	49,00	40,00	Incluido en Subconsolidado “NTS Middle East FZCO"					
Tubacex Advance Solutions S.L.	Vizcaya (Spain)	Marketing of tubes	n/a	100,00	-	100,00	3	(1)	(3)	-	(3)	(1)
Tubacex Europe, B.V							16	174	8	-	5	198
Tubacex Logistics, S.A.	Leioa (Vizcaya)	Transport and logistics	n/a	70,00	-	70,00	60	212	348	-	357	620
Tubacex, S.A. Sede Secundaria	Milan (Italy)	Marketing of tubes	n/a	100,00	-	100,00	-	220	40	-	41	260
Tubacex Servicios de Gestion S.L.U.	Vizcaya (Spain)	Consulting	n/a	100,00	-	100,00	3	283	(118)	-	(95)	168
Fundacion EIC Energy Advanced Engineering	Vizcaya (Spain)	Technological development	n/a	25,00	-	25,00	24	-	-	-	-	24
Tubacex US Holding, Inc	Delaware (US)	Holding	n/a	100,00		100,00	-	-	-	-	-	-
Salem Tube, Inc	Pennsylvania (USA)	Manufacture of tubes	Grossman Yanak & Ford	-	100,00	100,00	18.093	22.562	3.637	-	3.440	44.292
Tubacex Durant, Inc	Delaware (US)	Manufacture of tubes	Grossman Yanak & Ford	100,00	-	100,00	0	7.468	(1.094)	-	(840)	6.374
Tubacex CIS Limited Liability Company	Moscu (Rusia)	Marketing of tubes	n/a	100,00	-	100,00	43	-	(27)	-	(33)	16

APPENDIX

TUBACEX, S.A. AND SUBSIDIARIES

INFORMATION RELATING TO THE SUBSIDIARIES IN THE YEAR ENDED 31 DECEMBER 2018

				Percentage of ownership			Thousands of euros					
Company	Location	Line of business	Auditor	Direct	Indirect	Total	Share capital	Reserves and other equity items	Profit (Loss)	Interim dividend	Profit (Loss) from operations	Total shareholders' equity
Acería de Alava, S.A.U.	Álava (Spain)	Manufacture of steel	Deloitte	100,00	-	100,00	7.300	49.923	2.536	-	2.653	59.759
Tubacex Services Solutions Holding S.L.U.	Álava (Spain)	Marketing of tubes		100,00	-	100,00	31.183	4.474	2	-	(7)	35.659
Tubacex Services Solutions, S.A.U.	Álava (Spain)	Marketing of tubes	Deloitte	-	100,00	100,00	1.142	9.024	1.623	-	2.578	11.789
Tubos Mecánicos, S.A.U. (Subgroup)	Barcelona (Spain)	Manufacture and marketing of carbon steel tubes	Deloitte	-	100,00	100,00	5.437	24.710	2.851	-	3.796	32.998
Tubos Mecánicos Norte, S.A.U,	Álava (Spain)	Marketing of carbon steel tubes	Deloitte	-	100,00	100,00	Included in the Tubos Mecánicos subgroup					
Tubacex America Inc	Houston (US)	Marketing of tubes	n/a	-	100,00	100,00	1	2.849	1.040	-	968	3.890
Tubacex Services Solutions France, S.A.S.	Soissons (France)	Marketing of tubes	Deloitte	-	100,00	100,00	500	2.434	637	-	844	3.571
Tubacex India Pvt Ltd	India	Marketing	n/a	-	100,00	100,00	550	(237)	(188)	-	359	125
Tubacex Services Solutions Do Brasil Participacoes Ltda	Sao Paulo (Brasil)	Marketing of tubes	n/a	-	100,00	100,00	1.068	(575)	(120)	-	(300)	373
Tubacex Services Solutions Austria Gmbh	Ternitz (Austria)	Marketing of tubes	n/a	100,00	-	100,00	35	2.340	17	-	135	2.392
CFT Servicios Inmobiliarios, S.A.U.	Álava (Spain)	Marketing of tubes	n/a	100,00	-	100,00	60	1.099	-	-	-	1.159
Red Distribuidora de Tubos y Accesorios, S.A.U. (R.T.A.)	Álava (Spain)	Marketing of tubes	n/a	100,00	-	100,00	76	4.803	104	-	72	4.983
Schoeller – Bleckmann Edelstahlrohr Inmobilien GmbH	Ternitz (Austria)	Property development	Deloitte	100,00	-	100,00	70	4.510	88	-	74	4.668
Schoeller – Bleckmann Edelstahlrohr GmbH (Subgroup)	Ternitz (Austria)	Manufacture and marketing of tubes	Deloitte	100,00	-	100,00	3.500	29.637	14.307	-	14.175	47.444
Schoeller – Bleckmann Technisches Service GmbH	Ternitz (Austria)	Technical assistance services	Deloitte	-	100,00	100,00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller – Bleckmann Technisches Service GmbH & Co. KG	Ternitz (Austria)	Technical assistance services	Deloitte	-	100,00	100,00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller – Bleckmann Edelstahlrohr Deutschland GmbH	Düsseldorf (Germany)	Marketing of tubes	Deloitte	-	100,00	100,00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Schoeller – Bleckmann Tube France	Paris (France)	Marketing of tubes	Deloitte	-	100,00	100,00	Included in the Schoeller - Bleckmann Edelstahlrohr AG subgroup					
Salem Inc	Pennsylvania (US)	Manufacture of tubes	Grossman Yanak & Ford	-	100,00	100,00	18.093	26.703	1.261	-	1.546	46.057
Tubacex Taylor Accesorios, S.A.U.	Álava (Spain)	Manufacture of components	Deloitte	100,00	-	100,00	8.891	2.041	(867)	-	(1.195)	10.065
Tubacex Tubos Inoxidables, S.A.U.	Álava (Spain)	Manufacture and marketing of tubes	Deloitte	100,00	-	100,00	15.028	46.001	6.106	-	8.487	67.135
Tubacex Innovación AIE	Álava (Spain)	Innovation	n/a	91,67	8,33	100,00	6	(33)	359	-	492	333
Tubacoat, S.L.	Vizcaya (Spain)	Industrial development and marketing of long steel products	n/a	100,00	-	100,00	30	112	125	-	(178)	267
Tubacex Services, S.L.	Cantabria (Spain)	Manufacture and marketing of special steel tubes	Deloitte	81,00	-	81,00	3.704	1.998	(247)	-	(176)	5.455
IBF SpA (Subgroup)	Italy	Manufacture of high-end fittings	Deloitte	65,00	-	65,00	15.000	11.331	(4.373)	-	(3.930)	21.958
Tubacex Awaji Thailand	Thailand	Manufacture of fittings	n/a	-	60,00	60,00	Included in the "IBF SpA" subgroup					
Tubacex Prakash India Pvt Ltd	India	Manufacture and marketing of special steel tubes	Deloitte	67,53	-	67,53	1.413	34.749	1.217	-	1.370	37.379
Fundación Tubacex	Vizcaya (Spain)	Social Promotion	n/a	100,00	-	100,00	500	-	377	-	377	877
Tubacex Upstream Techonologies S.A.	Vizcaya (Spain)	Manufacture and marketing of special steel tubes	n/a	80,000	-	80,000	1.000	(87)	9.041	-	14.651	9.954
Tubacex Advance Solutions S.L.	Vizcaya (Spain)	Marketing of tubes	n/a	100,00	-	100,00	3	(1)	-	-	(1)	2
Tubacex Europe, B.V							16	138	22	-	32	176
Tubacex Logistics, S.A.	Leioa (Vizcaya)	Transport and logistics	n/a	70,00	-	70,00	60	45	167	-	260	272
Tubacex Italia	Milan (Italy)	Marketing of tubes	n/a	100,00	-	100,00	-	165	43	-	44	208
Tubacex Servicios de Gestion S.L.U.	Vizcaya (Spain)	Consulting	n/a	100,00	-	100,00	3	-	(17)	-	(16)	(14)
Fundacion EIC Energy Advanced Engineering	Vizcaya (Spain)	Technological development	n/a	25,00	-	25,00	24	-	-	-	-	24
Tubacex US Holding, Inc	Delaware (US)	Holding	n/a	100,00		100,00	-	-	-	-	-	-
Tubacex Durant, Inc	Delaware (US)	Manufacture of tubes	Grossman Yanak & Ford	100,00	-	100,00	-	(11)	(79)	-	(66)	(90)

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 2019

The year 2019 has been a year of global slowdown. The International Monetary Fund estimates that global growth for the year stood at 2.9%, compared to 3.6% in 2018. This slowdown was the result of three main factors: the weakening of world trade due to trade tensions between the US and China, uncertainty regarding Brexit and the general cooling of the manufacturing sector.

Market instability has been gradually increasing throughout the year, especially after the summer, yet 2019 has been characterised by a generally upward trend in raw material prices.

The price of nickel closed the 2019 fiscal year at $14,100 per ton, which implies a 31.5% revaluation in the year. The other two alloys with a significant weight in the Group's supplies for the manufacture of stainless steel are molybdenum and chrome. The price of molybdenum has fallen by 23% with respect to the close of 2018, while chrome has fallen by 9%.

The price of oil has also maintained a positive trend throughout the year. The Brent barrel closed December at $66.0, 22.7% higher than at the end of 2018, and further rises cannot be ruled out due to increased geopolitical tension and a fragile supply-demand balance that has deteriorated due to the lack of structural investment over the last 4-5 years.

Despite this volatile market context, 2019 has been a year of growth for TUBACEX, if we exclude the exceptional order for OCTG pipe supplied in 2018. This growth is the result of the success of the company's strategy of positioning itself in high value-added products, as well as the maintenance of a strict policy of cost control and continuous improvement. Furthermore, after more than five years of investment containment in the energy sector, the volume of projects awarded has begun to increase, although it is still far below pre-crisis levels. This trend allows us to be very optimistic in the medium term, although in the short term the macroeconomic situation makes it difficult to expect relevant and generalised growth, although there is a growing trend in investment rates.

1. GROUP BUSINESS PERFORMANCE IN 2019

To provide a detailed analysis of the performance of the main business variables in 2019, 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 Commercial activity.
1.4 Industrial activity.
1.5 Strategic Plan.

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

For comparison purposes, the main headings of the consolidated statements of profit or loss for 2019, 2018 and 2017 (in millions of euros) are discussed below.

	2019	%	2018	%	2017	%
Revenue	*613,55*	*100,00*	*622,12*	*100,00*	*490,36*	*100,00*
Other income	*12,58*	*12,77*	*12,77*	*2,05*	*10,72*	*2,19*
Changes in inventories	*2,92*	*27,54*	*28,86*	*4,43*	*20,38*	*4,16*
Total operating amount	***629,05***	***98,77***	***662,43***	***106,48***	***521,46***	***106,34***
Procurements and purchases	*-307,71*	*-50,15*	*-328,94*	*-52,87*	*-274,72*	*-56,02*
Staff costs	*-146,20*	*-23,83*	*-133,47*	*-21,45*	*-121,44*	*-24,77*
External and operating expenses	*-121,04*	*-19,73*	*-130,45*	*-20,97*	*-99,36*	*-20,26*
Negative difference in business combination	*12,99*	*2,12*	*-*	*-*	*-*	*-*
Gross profit from operations	***67,08***	***10,93***	***69,58***	***11,18***	***25,94***	***5,29***
Depreciation and amortisation charge and impairment losses	*-44,29*	*-7,22*	*-35,13*	*-5,65*	*-54,19*	*-11,07*
Net profit from operations	***22,79***	***3,71***	***34,45***	***5,54***	***-28,25***	***-5,78***
Financial loss	***-11,72***	***-1,91***	***-14,79***	***-2,38***	***-9,04***	***-1,84***
Exchange differences	***0,43***	***0,07***	***0,24***	***0,04***	***-1,79***	***-0,36***
Profit (Loss) from ordinary activities	***11,50***	***1,87***	***19,89***	***3,20***	***-39,08***	***-7,99***
Income tax	*3,17*	*0,52*	*-2,46*	*-0,40*	*14,97*	*3,05*
Net profit (loss) for the year	***14,67***	***2,39***	***17,43***	***2,80***	***-24,10***	***-4,94***
Profit (loss) attributable to non-controlling interests	*-3,53*	*-0,57*	*-0,05*	*-0,01*	*4,40*	*0,90*
Profit (loss) attributable to the Parent	***11,15***	***1,82***	***17,38***	***2,79***	***-19,71***	***-4,04***

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

- Sales have decreased by only 1.4% compared to 2018 even though a major OCTG order in the Middle East has been cancelled thanks to the gradual improvement in the market, as well as the inclusion of the NTS Group in the Group's consolidation perimeter.

- The ratio of the cost of supplies to net sales rose from 52.9% at the end of 2018 to 50.2%, due to the policy of continuous improvement, the gradual increase in the supply of integral solutions and the lower volume of OCTG products supplied, which require high-value raw materials.

- The number of people employed by the Group has increased from an average of 2,383 in 2018 to 2,553 in 2019, a net increase of 170.

- The percentage represented by "Other operating expenses" on sales figures is reduced from 21.0% in 2018 to the current 19.7% thanks to the Group's cost control policies.

- The increase in depreciation and impairment charges is due to the increase in the Group's scope of consolidation following the acquisition of NTS.

- The Group's financial debt has decreased by 0.9 million euros to 253.6 million euros. This reduction has been possible in a year of extraordinary investments (acquisition of a minority stake in IBF, investment in a new plant in the USA and the acquisition of the Nobu Group), thanks to the generation of the business's own cash flow and the great effort made to reduce working capital (-35.0 million euros). It should be noted that TUBACEX manufactures to order, given the nature of the products it offers, which are custom-designed for specific projects. As a result, net debt is closely linked to working capital, most of which has already been sold and has a positive net realisable value.

- The financial result is lower than in 2018 due to the efforts made by the Group to diversify the sources of financing and contain costs. In addition, it should be recalled that the financial expenditure in 2018 was influenced by the formalisation of guarantees and bank structuring of multi-year projects for premium products, especially those relating to the OCTG sales project in Iran.

1.2 Financial activity

The equity stood at EUR 335,6 million at the end of 2019, representing 31.0 % of total equity and liabilities (2018: 30,3%). 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 2019 amounted to EUR 166.6 million, which represents 39.6% of the total debt, compared with 31.2% in 2018. The group's financial strategy is to continue expanding the long-term financial debt base while diversifying its nature including bank financing, public funding, and other debt instruments not Bank.

In 2019 the TUBACEX share maintained a positive performance with an accumulated revaluation at the end of the year of 13.2%. 332.5 million at the end of 2018.

332.5m at the end of 2018. The maximum price of TUBACEX shares for the year was The lowest price, however, was 2.48 euros on 3 January.

In terms of liquidity of the stock, the number of shares traded between January and December 2019 was 33.8 million with effective trading of 94.0 million euros. The share turnover thus stands at 25%.

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 Sales activity

The Group's consolidated sales amounted to EUR 613.55 million in 2019, with an decrease of 1,4% over the previous year. The main reasons for this performance are explained in point 1.1. above.

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

	2019	2018	2019/
Europe	43,98	65,92	-33,3%
Resto of Europe	319,44	250,13	+27,7%
US	77,71	56,97	+36,4%
Other countries	172,40	249,11	-30,8%
Total sales	613,55	622,122	-1,4%

According to these figures, by market, 59% of sales are made in the European market, 13% in the US and 28% in the rest of the world. In 2018 this distribution was 51,9%, 9% and 40%, respectively.

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

1.4 Manufacturing activity

The investments made in property, plant and equipment in 2019 totalled approximately EUR 55.0 million, compared with EUR 25.9 million in 2018.

The figure for 2019 represents a significant increase over 2018, due mainly to two strategic projects, which will enable the scope of the business to be expanded, both in terms of the range of products and services and from a geographical standpoint.

On the one hand, the incorporation of the company NTS into the Tubacex Group, which is immersed in a process of growth, has required additional investments in production equipment to meet the existing demand within its market niche.

On the other hand, a new production plant is being built in the United States, with several objectives, such as the local presence in a market that imports the vast majority of its demand, and to develop the capacity to manufacture new high added value products, both for the American market and globally.

The rest of the group's investments have been directed mainly towards the growth of the Indian plant, and to improving the efficiency of the rest of the production plants.

1.6 Strategic plan

The strategic Plan of the TUBACEX group has four fundamental objectives:

1) Reinforce the positioning of TUBACEX as a global supplier of tubular solutions

To do this, it is necessary to grow in the whole value chain and be present in all the necessary phases to offer an integrated solution, from the design of the concept to the installation and maintenance of the solution.

2) Reduce volatility

Through three fundamental ways: diversification of the sectors of activity that use the products, diversification of products towards those with greater added value and reduction of the impact of the raw materials on the profitability of the orders.

3. Grow in a profitable and sustainable way

It is a two-stage objective; In a first phase, with a standardized market and the current sales mix; And a second after achieving complete positioning as a supplier of integral tubular solutions.

4) Achieve a level of excellence above 500 in the EFQM model

TUBACEX is subjected annually to a self-assessment to measure the evolution of His Excellency in the Organization. The results from 2013 show a favorable evolution in all the evaluation criteria with notable results especially in the criteria of "strategy", "leadership" and "products, processes and services". In 2019 TUBACEX obtained the Silver A, which recognizes the excellence of its management after an exhaustive evaluation process. Obtaining this recognition, awarded by Euskalit, the Basque Foundation for Excellence, is a qualified endorsement of excellence in its management.

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.

A pesar de que 2019 ha sido un año de transición, en el que la demanda ha comenzado a mejorar ligeramente, aunque aún lejos de las cifras anteriores a la crisis, los resultados del ejercicio muestran un fuerte crecimiento, excluyendo el excepcional pedido de OCTG suministrado en 2018. Este crecimiento es fruto del éxito en la estrategia de posicionamiento de la compañía en productos de alto valor añadido, así como el mantenimiento de una estricta política de control de costes y mejora continua. Estos tres pilares han permitido al Grupo sortear la mayor crisis del sector del petróleo, tras la cual la estructura comercial, industrial y financiera de la compañía ha salido notablemente reforzada.

En 2019 TUBACEX ha seguido avanzando en su posicionamiento como proveedor integral de soluciones tubulares de alto valor tecnológico y servicios de valor añadido, realizando para ello inversiones orientadas a aumentar su capacidad productiva. Prueba de ello es la adquisición realizada conjuntamente con SENAAT (vehículo de inversión de Abu Dabi) de NTS Group, compañía especializada en la fabricación, reparación y mantenimiento de componentes mecanizados en acero inoxidable para los sectores de Petróleo y Gas. TUBACEX también ha apostado por el crecimiento orgánico apalancando el buen comportamiento del mercado norteamericano y su filial en esa región con el establecimiento de una nueva fábrica en Durant (Oklahoma).

En materia de sostenibilidad, TUBACEX mantiene como prioridad la lucha contra el cambio climático y ha establecido líneas de trabajo centradas en el desarrollo de productos más eficientes y que reduzcan la emisión de CO2, la optimización de procesos internos para minimizar impactos medioambientales y una reformulación del enfoque de innovación asumiendo nuevos retos en materia de reducción de CO2 e impulsando la economía circular.

3. SIGNIFICANT EVENTS FOR THE GROUP AFTER THE REPORTING PERIOD

No relevant events have occurred since the end of 2019.

4. OUTLOOK AND FUTURE PERFORMANCE OF THE GROUPS BUSINESS LINES

After the strong crisis in the sector that began in mid-2014, in 2018 the volume of projects awarded began to recover, a trend that has continued in 2019, although the project market is still far from pre-crisis levels.

This recovery trend, combined with the lack of investment in recent years, allows for optimism in the medium term. Although the main engineering companies have increased the activation of projects in the FEED phase in 2019, TUBACEX's position in the value chain means that there is a certain shift until this recovery is reflected in its results.

In addition, competitive pressure during the crisis has been less relevant in the premium value-added segment which accounts for most of the Group's sales. Therefore, the improvement in the product mix and the sales channel oriented towards the end customer will improve TUBACEX's prospects in the future.

As far as future prospects are concerned, TUBACEX anticipates a year in 2020 with a growing trend in the generation of results, thanks to the gradual improvement of the market. This improvement, together with the awarding of the important orders expected in the short term, will allow the company to close the year with a record number of new orders and great visibility for the coming years.

5. INNOVATION ACTIVITIES

In accordance with its strategic vision, the TUBACEX Group is making advances in its value proposition, focused on integral solutions with a high technological component, for the most demanding markets.

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

During 2019, TUBACEX has continued to intensify its R&D activity by laying the foundations for future projects that will see the light over the next few years. To this end, it has set up a committee of experts in innovation to guide the entity's lines of action in various areas, in line with the short- and long-term scenarios of its demand sectors. In addition, the Group has implemented various innovative solutions in the field of tubes.

TUBACEX is participating in a global acceleration of technological development, facilitated by digitization. Thus, it is assuming the adoption of digital technologies, and the concepts of Industry 4.0 as a strategic need, assuming a growing number of technological innovation projects in its production plants that will allow it to remain a reference to World level.

Both the intensification of collaboration with external agents, as well as technological acceleration and the increasingly strong emergence of digitization, are leading to a change in the approach of the Tubacex innovation process. Open innovation is the right way to innovate, the multidisciplinary approach is increasingly necessary, and collaboration with technological start-ups appears as a new capacity to develop.

7. ACQUISITION AND DISPOSAL OF TREASURY SHARES

At the end of 2019, the number of own shares was 3,361,718, compared to 3,142,975 at the end of 2018.

8. PROPOSED ALLOCATION OF RESULTS

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

	Euros
To dividends	6,000,000
To voluntary reserves	674,717
Total	6,674,717

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 2019.

10. OTHER INFORMATION

10.1 Fees paid to auditors

The audit fees for the professional services rendered at the TUBACEX Group in 2019 amounted to EUR 522.0 thousand.

11. ANNUAL CORPORATE GOVERNANCE REPORT

The full text of the Annual Corporate Governance Report is set out below. This text was approved by the Board of Directors of Tubacex, S.A. and is an integral part of the 2019 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 2019 consolidated directors' report.