Tubos Reunidos, S.A.
and subsidiaries

Audit Report,
Consolidated Annual Accounts at 31 December 2015
and Directors' Report for 2015

"This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Tubos Reunidos, S.A.:

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Tubos Reunidos, S.A. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Tubos Reunidos, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors´ preparation of the consolidated annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

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

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Tubos Reunidos, S.A. and its subsidiaries as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2015 contains the explanations which the parent company´s directors consider appropriate regarding Tubos Reunidos, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the consolidated annual accounts for 2015. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Tubos Reunidos, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Gabriel Torre

Audit Partner

26 February 2016

TUBOS REUNIDOS, S.A.

JORGE GABIOLA MENDIETA, Abogado, Secretario del Consejo de Administración de TUBOS REUNIDOS, S.A., domiciliada en Amurrio (Alava), Bº Sagarribay s/n, e inscrita en el Registro Mercantil de Alava, al Tomo 881, folio 22 vuelto, hoja VI 6719 y provista de C.I.F. número A-48011555.

CERTIFICO:

Que las Cuentas Anuales consolidadas de Tubos Reunidos y sus sociedades participadas correspondientes al ejercicio cerrado el 31 de diciembre de 2015, que han sido traducidas al inglés para su presentación en el Informe Anual de 2015, coinciden en todos sus términos con las Cuentas Anuales en español que fueron formuladas por el Consejo de Administración de Tubos Reunidos el 25 de febrero de 2016.

Firmo la presente certificación, en Amurrio (Alava) a diecisiete de marzo de dos mil dieciseis.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and
Consolidated Directors' Report
for the year ended
31 December 2015

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

Contents

Note:			Page
	CONSOLIDATED BALANCE SHEET		**1**
	CONSOLIDATED INCOME STATEMENT		**2**
	CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME		**3**
	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY		**4**
	CONSOLIDATED CASH FLOW STATEMENT		**5**
	NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS		**6**
1	**General information**		**6**
2	**Summary of main accounting policies**		**7**
	2.1	Presentation criteria	7
	2.2	Principles of consolidation	14
	2.3	Financial information by segments	17
	2.4	Transactions in foreign currency	17
	2.5	Material fixed assets	18
	2.6	Interest costs	19
	2.7	Investment properties	19
	2.8	Intangible assets	19
	2.9	Impairment loss of non-financial assets	21
	2.10	Non-current assets (disposal groups) held for sale	21
	2.11	Financial Assets	21
	2.12	Financial derivatives and hedging activity	24
	2.13	Stock	25
	2.14	Trade accounts receivable	25
	2.15	Cash and equivalents	25
	2.16	Capital stock	26
	2.17	Trade accounts payable	26
	2.18	Borrowed capital	26
	2.19	Current and deferred taxes	26
	2.20	Employee benefits	28
	2.21	Provisions	29
	2.22	Recognition of income	29
	2.23	Leaseholds	30
	2.24	Distribution of dividends	30
	2.25	Environment	31
3	**Financial risk management**		**31**
	3.1	Financial risk factors	31
	3.2	Estimation of fair value	37
	3.3	Capital risk management	38
4	**Accounting estimations and assumptions**		**39**
	4.1	Relevant accounting estimations	39
	4.2	Important assumptions on applying accounting policies	41

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

Note:		Page
5	**Financial information by segments**	**42**
6	**Property, plant and equipment**	**47**
7	**Intangible assets**	**56**
8	**Analysis of financial instruments**	**58**
	8.1 Analysis by categories	58
	8.2 Credit rating of financial assets	60
9	**Derivatives**	**60**
10	**Trade and other accounts receivable**	**61**
11	**Inventories**	**63**
12	**Cash and equivalents**	**64**
13	**Non-current assets held for sale**	**64**
14	**Capital stock and issue premium**	**65**
15	**Other reserves and retained earnings**	**67**
16	**Minority interests**	**69**
17	**Deferred income**	**70**
18	**Payables**	**70**
19	**Borrowed capital**	**74**
20	**Deferred tax**	**76**
21	**Provisions**	**80**
22	**Operating income**	**82**
23	**Other income**	**82**
24	**Employee benefit expenses**	**83**
25	**Other expenses**	**83**
26	**Other net profit/(loss)**	**84**
27	**Financial income and expenses**	**84**
28	**Public administration and tax on profit**	**85**
29	**Earnings per share**	**88**
30	**Dividends per share**	**88**
31	**Cash generated by operations**	**89**
32	**Contingencies**	**89**
33	**Commitments**	**90**
34	**Related party transactions**	**90**
35	**Other information**	**93**

CONSOLIDATED DIRECTORS' REPORT FOR 2015

- **ANNUAL CORPORATE GOVERNANCE REPORT (IAGC)**

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015
(Thousands of euros)

		At 31 December	
ASSETS	**Note:**	**2015**	**2014**
Property, plant and equipment	**6**	366,092	357,175
Other intangible assets	**7**	14,674	14,021
Investment properties		412	424
Non-current financial assets	**8**	150	217
Deferred tax assets	**20**	57,391	45,802
NON-CURRENT ASSETS		438,719	417,639
Inventories	**11**	121,795	140,874
Trade and other accounts receivable	**8/10**	45,810	74,607
Derivatives	**8/9**	24	-
Other current financial assets	**8**	5,392	6,171
Cash and cash equivalents	**8/12**	26,955	18,293
CURRENT ASSETS		199,976	239,945
DISPOSAL GROUP ASSETS CLASSIFIED AS HELD FOR SALE	**13**	3,120	4,599
TOTAL ASSETS		**641,815**	**662,183**
LIABILITIES AND NET EQUITY			
Capital stock	**14**	17,468	17,468
Issue premium	**14**	387	387
Other Reserves	**15**	48,924	48,924
Retained earnings	**15**	160,915	179,192
Accrued exchange rate difference		401	(74)
Less: Treasury stock	**14**	(1,026)	(790)
EQUITY ATTRIBUTED TO HOLDERS OF NET EQUITY INSTRUMENTS OF THE PARENT COMPANY		227,069	245,107
Minority interests	**16**	17,106	15,829
NET EQUITY		244,175	260,936
DEFERRED INCOME	**17**	15,094	12,469
Borrowed capital	**8/19**	161,240	155,640
Deferred tax liabilities	**20**	21,417	21,481
Derivatives	**9**	54	-
Other non-current liabilities	**8/18**	40,500	30,067
Provisions	**21**	2,937	3,622
NON-CURRENT LIABILITIES		226,148	210,810
Borrowed capital	**8/19**	42,146	40,436
Trade and other accounts payable	**8/18**	108,375	126,542
Derivatives	**8/9**	114	2,715
Other current liabilities		-	26
Provisions	**21**	5,763	8,249
CURRENT LIABILITIES		156,398	177,968
TOTAL LIABILITIES		397,640	401,247
TOTAL LIABILITIES AND NET EQUITY		**641,815**	**662,183**

Notes 1 to 35 are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015
(Thousands of euros)

	Note:	Year ended 31 December 2015	2014
Revenue	**22**	352,478	407,952
Other income	**23**	11,522	12,275
Variation in inventories of finished goods and work in progress	**11**	(6,281)	18,993
Supplies	**11**	(172,678)	(217,285)
Employee benefit expenses	**24**	(99,155)	(101,296)
Depreciation provision	**6/7**	(28,227)	(26,361)
Other expenses	**25**	(77,712)	(86,254)
Other net profit/(loss)	**26**	3,688	6,988
OPERATING INCOME		(16,365)	15,012
Financial revenue	**27**	62	234
Financial expenses	**27**	(6,921)	(10,623)
Net exchange rate differences	**27**	1,224	1,586
Impairment and income from disposal of financial instruments	**27**	-	(8)
Participation in the result of the financial year of associated companies and joint ventures accounted using the equity method	**27**	-	(16)
NET FINANCIAL LOSS		(5,635)	(8,827)
PROFIT/(LOSS)BEFORE TAXES FROM CONTINUING OPERATIONS		(22,000)	6,185
Income tax expense	**28**	6,788	1,266
PROFIT/(LOSS) FOR THE YEAR AFTER TAXES FROM CONTINUING OPERATIONS		(15,212)	7,451
PROFIT/(LOSS) FOR THE YEAR		(15,212)	7,451
Minority interests	**16**	976	372
EARNINGS ATTRIBUTED TO THE OWNERS OF THE PARENT COMPANY		**(16,188)**	**7,079**

	Note:	Financial year closed on 31st December 2015	2014
Profit/Loss per share from continuing and discontinued activities attributable to the shareholders of the parent company (in euros per share)	**29**		
Basic earnings per share			
- From continuing activities		(0.093)	0.041
- From discontinued activities		-	-
		(0.093)	0.041
Diluted earnings per share:			
- From continuing activities		(0.093)	0.041
- From discontinued activities		-	-
		(0.093)	0.041

Notes 1 to 35 are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015
(Thousands of euros)

	Financial year closed on 31st December	
	2015	**2014**
PROFIT OF THE FINANCIAL YEAR	**(15,212)**	**7,451**
OTHER COMPREHENSIVE INCOME		
Items that can subsequently be posted to income		
Conversion differences in foreign currency	776	(54)
Cash flow hedging	(54)	-
TOTAL COMPREHENSIVE INCOME OF THE FINANCIAL YEAR	**(14,490)**	**7,397**
Attributable to:		
- Shareholders of the parent company	(15,767)	7,121
- Minority interests	1,277	276
	(14,490)	**7,397**

Notes 1 to 35 are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015
(Thousands of euros)

	Attributable to company shareholders							
	Capital stock (Note 14)	Treasury stock (Note 14)	Issue premium (Note 14)	Other Reserves (Note 15)	Accrued exchange rate difference	Retained earnings (Note 15)	Minority interests (Note 16)	Total net equity
Balance at 31st December, 2013	17,468	(4,221)	387	48,924	(3,227)	176,053	10,653	246,037
Total comprehensive income of 2014	-	-	-	-	42	7,079	276	7,397
Treasury stock transactions (Note 14)	-	3,431	-	-	-	-	-	3,431
Dividends (Note 30)	-	-	-	-	-	(3,139)	-	(3,139)
Variations in the scope of consolidation (Note 1)	-	-	-	-	2,310	-	4,900	7,210
Other variations	-	-	-	-	801	(801)	-	-
Balance at 31st December, 2014	17,468	(790)	387	48,924	(74)	179,192	15,829	260,936
Total comprehensive income of 2015	-	-	-	-	475	(16,242)	1,277	(14,490)
Treasury stock transactions (Note 14)	-	(236)	-	-	-	-	-	(236)
Dividends (Note 30)	-	-	-	-	-	(2,005)	-	(2,005)
Other variations	-	-	-	-	-	(30)	-	(30)
Balance at 31st December, 2015	17,468	(1,026)	387	48,924	401	160,915	17,106	244,175

Notes 1 to 35 are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015
(Thousands of euros)

	Note	Year ended 31 December	
		2015	**2014**
Operating cash flows			
Cash generated by operations	**31**	26,494	43,566
Interest collected	**27**	62	234
Interest paid	**19 and 27**	(6,507)	(10,450)
Net cash generated by operating activities		20,049	33,350
Investing cash flows			
Acquisition of material fixed assets	**6 and 18**	(31,342)	(28,733)
Income from sale of material and intangible assets	**6 and 7**	2,460	426
Income from sale of assets available for sale	**13**	2,127	292
Acquisition of intangible assets	**7**	(3,854)	(4,715)
Net withdrawals of financial assets	**8**	846	-
Divestment in associates	**28**	975	8,485
Net cash used in investment activities		(28,788)	(24,245)
Financing cash flow			
Acquisition and redemption of treasury stock	**14**	(236)	3,431
Added borrowed capital	**19**	78,740	70,077
Added other debts	**18**	16.064	-
Repayment of borrowed capital	**19**	(71,192)	(81,333)
Repayment of other debts	**18**	(4,226)	-
Income from issue of shares of a (minority) subsidiary	**16**	-	4,900
Dividends paid to Company shareholders	**30**	(2,005)	(3,139)
Subsidies received		256	-
Net cash used in financing activities		17,401	(6,064)
Net (decrease)/increase in cash and equivalents		**8,662**	**3,041**
Cash and bank overdrafts at the beginning of the financial year	**12**	18,293	15,252
Cash and bank overdrafts at the end of the financial year		**26,955**	**18,293**

Notes 1 to 35 are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2015
(Thousands of euros)

1. General information

Tubos Reunidos, S.A. (T.R.), as holding company, is the parent company of a group made up by various companies (see attached table) with activities in the fields of seamless tubes, distribution, automotive industry and others. Its registered offices and address for tax purposes are in Amurrio (Álava).

The parent company is a public limited company listed on the stock exchanges of Bilbao and Madrid.

The list of subsidiary companies, all of them consolidated using the full integration method, as it holds in all cases a majority shareholding or control of the Company, is the following:

Company and registered address	Activity	%	Group Company	Auditor
Tubos Reunidos Industrial, S.L. (Single Shareholder Company) (TRI) Amurrio (Álava)	Industrial	100	T.R.	PwC
Productos Tubulares, S.A. (Single Shareholder Company) (PT) Valle de Trápaga (Biscay)	Industrial	100	T.R.	PwC
T.R. Aplicaciones Tubulares de Andalucía, S.A. (TRANDSA) Chiclana (Cádiz)	No activity	100	T.R.	-
Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarra)	Industrial	100	T.R.	(**)
Tubos Reunidos Premium Threads, S.L. (TRPT) (*) Iruña de Oca (Álava)	Industrial	51	T.R.	PwC
Industria Auxiliar Alavesa, S.A. (INAUXA) (*) Amurrio (Álava)	Industrial	50	T.R.	PwC
Engineering Developments for Automotive Industry, S.L. (EDAI) (*) Amorebieta (Biscay)	Holding	50	T.R.	PwC
EDAI Technical Unit, A.I.E. (*) Amorebieta (Biscay)	Engineering	50	EDAI	PwC
Inaumex, S.A. de C.U. (*) Celaya (Mexico)	Industrial	50	EDAI	PwC
Kunshan Inautek Automotive Components Co. Ltd. (*) Kunshan (China)	Industrial	50	EDAI	PwC
T.R. América, Inc. Houston (Texas)	Dealer	100	T.R.	Weaver
Almacenes Metalúrgicos, S.A.U. (ALMESA) Güeñes (Biscay)	Dealer	100	T.R.	PwC
T.R. Comercial, S.A. Amurrio (Álava)	Dealer	100	T.R.	-
Profesionales de Calefacción y Saneamiento, S.L. (PROCALSA) Barcelona	Dealer	100	Almesa	(**)
Clima, S.A.U. (CLIMA) Bilbao	Holding company	100	T.R.	-
Aplicaciones Tubulares, S.L. Bilbao (Biscay)	No activity	100	T.R.	-

(*) Companies under the full integration method as the Group holds effective control over them (Note 4.2).
(**) Revision by PwC for consolidation

Variations in the scope of consolidation

During FY 2015, group company Productos Tubulares, S.A. (Single Shareholder Company) sold its 31% share in Perimetral Sallen Technologies, S.L. The sale of said share has signified an income in the consolidated profit and loss account of 975,000 euros (Note 26).

During the second half of 2014, Aplicaciones Tubulares, C.A. (Atuca), with registered address in Venezuela, was sold. Said sale signified a loss in the consolidated profit and loss account of 2.5 million euros, of which 2.3 million euros corresponded to the reversal of the conversion differences which existed at the moment of the sale transaction, without impact on Group equity.

On 27 November 2014, Tubos Reunidos Premium Threads, S.L. was incorporated and the Group subscribed and paid out 51% of the capital stock through Tubos Reunidos, S.A. This company will engage primarily in finishing and processing seamless tubes.

Consolidated annual accounts

The annual accounts of the Group companies used in the consolidation process are, in all cases, those corresponding to the financial year ending on 31st December of each financial year.

Preparation of annual accounts

The annual accounts of FY 2014 were drawn up by the Board of Directors of the parent company on 26 February 2015, and were approved by the Shareholders' Meeting on 7 May 2015. The annual accounts of FY 2015 were drawn up by the Board of Directors of the parent company on 25 February 2016, and are pending approval by the Shareholders' Meeting, although Group Management foresees that they will be approved without changes.

2. Summary of the main accounting policies

Below is a description of the main accounting policies adopted on drawing up these consolidated annual accounts. Except for the indications in Note 2.1 below, the accounting policies have been applied consistently to all the years shown in these consolidated annual accounts.

2.1 Presentation criteria

The consolidated annual accounts of the Group at 31 December 2015, have been drawn up in compliance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (IFRS-EU) and approved by European Commission Regulations and in effect at 31st December, 2015, as well as with IFRIC interpretations.

These consolidated annual accounts are prepared under the historical cost convention, although modified by the revaluation of financial assets available for sale and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of consolidated annual accounts under IFRS-EU requires the use of certain critical accounting estimations. It also requires management to use its judgement in the process of application of the Group's accounting policies. Note 4 indicates the areas which imply the greatest degree of judgement or complexity or the areas where the assumptions and estimations are significant for the consolidated annual accounts.

With the enforcement on 1st January, 2015, of certain International Financial Reporting Standards, the Company has proceeded to adjust its consolidated annual accounts to such standards. The standards which have come into effect are detailed below.

The consolidated annual accounts are not affected by any aspect which could contravene applicable presentation criteria.

2.1.1 List and summary of standards, changes to standards and interpretations published to date.

a) Obligatory standards, changes and interpretations for all financial years starting from 1 January 2015.

IFRIC 21 "Levies"

This interpretation covers the accounting of outflows imposed by the public administration, other than tax on profit and fines and sanctions imposed for non-compliance with legislation.

The new interpretation has had no effect on the consolidated annual accounts of the Group.

Annual Improvements in IFRS, 2011 – 2013 Cycle

In December 2013, the IASB published the Annual Improvements for the 2011-2013 Cycle. The changes introduced in these Annual Improvements generally apply to financial years which start as from 1 January 2015, although they may be adopted in advance. The main changes refer to:

- IFRS 3 "Business combinations": Exceptions in scope for joint ventures.
- IFRS 13 "Fair value measurement": Scope of "portfolio exception" available in IFRS 13.

- IAS 40 “Investment property”: Interrelation between IAS 40 and IFRS 3 when a property is classified as real-estate investment or property occupied by the owner.

These changes have not had a significant effect on the consolidated annual accounts of the Group.

b) Standards, changes and interpretations which have not yet come into effect, but can be adopted before the financial years starting as from 1 January 2015

On the date of signature of these consolidated annual accounts, the IASB and IFRS Interpretations Committee has published the standards, changes and interpretations detailed below, whose application is compulsory as from FY 2016, even if the Group has not adopted them in advance.

Annual Improvements in IFRS, 2010-2012 Cycle

The IASB published the Annual Improvements for the 2010-2012 Cycle in December 2013. The changes introduced in these Annual Improvements generally apply to financial years which start as from 1 February 2015, although they may be adopted in advance.

The main changes refer to:

- IFRS 2 “Share-based payment”: Definition of "vesting condition".
- IFRS 3 "Business combinations": Accounting of a contingent consideration in a business combination.
- IFRS 8 “Operating segments”: Information to be disclosed on aggregation of operating segments and reconciliation of total assets assigned to the segments on which there is disclosure with the entity's assets.
- IFRS 13 “Fair value measurement”: Reference to the capacity to measure short term accounts receivable and payable at nominal value when the effect of the discount is not significant.
- IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”: Proportional re-expression of accrued depreciation when the revaluation model is used.
- IAS 24 “Related party disclosures”: Entities which provide key management personnel services as related parties.

These changes are not expected to have a significant effect on the consolidated annual accounts of the Group in the future.

IAS 19 (Amended) "Defined benefit plans: contributions by employees"

IAS 19 (revised in 2011) distinguishes between contributions by employees in regard to the service provided and others unrelated to the service. Moreover, the current amendment distinguishes between service-related benefits only in the year in which they arise and those related to service over more than one year. The amendment permits service-related benefits which do not vary throughout the duration of the service to be deducted from the cost of benefits accrued in the financial year in which the corresponding service is provided. Furthermore, service-related contributions which vary according to duration should be extended during the service provision period using the same assignment method as that applied to the benefits. This change applies to the financial years starting as from 1st February, 2015, and is applied retrospectively. It may be adopted in advance.

The Group is analysing the impact that the amendment may have on the consolidated annual accounts in the future, although initially it does not expect significant effects.

IAS 16 (Amended) and IAS 41 (Amended) "Agriculture: Production plants"

The Group has no assets affected by these changes.

IFRS 11 (Amended) "Accounting of share acquisitions in joint arrangements"

It requires the application of the accounting principles of a combination of business transactions for an investor that acquires a share in a joint arrangement which constitutes a business.

This amendment is not expected to have a significant effect on the consolidated annual accounts of the Group in the future.

IAS 16 (Amended) and IAS 38 (Amended) "Clarification of acceptable methods for depreciation and amortisation"

This amendment clarifies that it is not suitable to use methods based on ordinary income to calculate the depreciation of an asset because the ordinary income generated by an activity which includes the use of an asset generally reflects different factors of consumption of the financial benefits inherent to the asset.

These amendments are not expected to have any significant effect on the consolidated annual accounts of the Group in the future.

Improvement project, 2012–2014 Cycle: The main changes refer to:

- IFRS 5, “Non-current assets held for sale and discontinued activities”: Changes in disposal methods.
- IFRS 7, "Financial instruments: Information to be disclosed": Ongoing involvement in contracts with the administration.
- IAS 19, “Employee benefits”: Determination of the discount rate in obligations for post-employment benefits.
- IAS 34, “Interim financial reporting”: Information submitted elsewhere in interim financial reporting.

These changes are not expected to have any significant effect on the consolidated annual accounts of the Group in the future.

IAS 1 (Amended) “Disclosure initiative": The changes to IAS 1 encourage companies to apply professional judgement in the determination of what information is to be disclosed, as well as where and in what order such information shall be presented in the annual accounts. The changes clarify that the information of a material nature applies to the annual accounts as a whole and that the inclusion of immaterial information may hinder the usefulness of financial information.

This change may have an impact on the order of presentation of information in the consolidated annual accounts of the Group in the future.

IAS 27 (Amended) “Participation method in separate annual accounts”:

The Group does not present separate annual accounts under IFRS-EU.

c) Standards, changes and interpretations of existing norms that may not be adopted in advance or have not been adopted by the European Union

On the date of preparation of these consolidated annual accounts, the IASB and IFRS Interpretations Committee had made public the standards, changes and interpretations detailed below, which are pending endorsement by the European Union.

IFRS 15, "Ordinary revenue from contracts with customers"

In May 2014, the IASB and FASB jointly issued a converging standard in regard to the recognition of ordinary income from contracts with customers. Under this standard, income is recognised when the customer obtains control of the sold good or service; that is, when the customer has the capacity to govern the use and to obtain the profits of the good or service. This IFRS includes new guidelines to determine if the income should be recognised on an ongoing basis or at a certain moment thereof. IFRS 15 requires ample information both of the recognised income and of the income expected to be recognised in the future in regard to existing contracts. Furthermore, it requires quantitative and qualitative information on significant assumptions made by management in the determination of the recognised income, as well as on changes on such assumptions. IFRS 15 will come into effect for the financial years which start as from 1st January, 2018, although it may be adopted in advance.

The Group is analysing the impact that this standard may have on the consolidated annual accounts, if endorsed by the European Union.

IFRS 9, "Financial instruments"

This covers the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was made public in July 2014 and supersedes the IAS 39 guidelines on classification and measurement of financial instruments. IFRS 9 maintains but simplifies the mixed valuation model and establishes three main valuation categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The classification type will depend on the business model of the entity and the characteristics of the contractual cash flows of the financial asset. Investments in net equity instruments must be valued at fair value through profit or loss, with the initial irrevocable option to present changes in fair value though other non-recycled comprehensive income, providing the instrument is not held for trading. If the equity instrument is held for trading, the changes in fair value are shown in income. With regard to financial liabilities, there have been no changes in terms of classification and measurement, except for the recognition of changes in credit risk in the other comprehensive income for liabilities designated at fair value through profit or loss. Under IFRS 9, there is a new model for impairment losses, the model for expected credit losses, which supersedes the model for incurred impairment losses of IAS 39 and which will signify earlier recognition of losses with respect to IAS 39. IFRS 9 loosens requirements for the effectiveness of hedging. Under IAS 39, hedging had to be highly effective, both prospectively and retrospectively. IFRS 9 supersedes this line, requiring a financial relationship between the hedged account and the hedging instrument and that the covered ratio should be the same as that actually used by the entity in its risk management. Contemporaneous documentation continues to be necessary but is different to that required under IAS 39. Lastly, ample information is required, including reconciliation between the initial and final sums of the provision for expected credit losses, assumptions and data, and a reconciliation in the transition between the original classification categories under IAS 39 and the new classification categories under IFRS 9.

IFRS 9 will come into effect for the financial years which start as from 1 January 2018, although it may be adopted in advance. IFRS 9 will be applied retrospectively but there will be no obligation to re-express comparative figures.

The Group is analysing the impact that this standard may have on the consolidated annual accounts, if endorsed by the European Union.

IFRS 10 (Amended) and IAS 28 (Amended) "Sale or contribution of assets between an investor and its associate or joint venture"

These changes clarify the accounting of sale or contribution of assets between an investor and its associate or joint venture which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitutes a "business". The investor will recognise the full gain or loss when the non-monetary assets constitute a "business". If the assets do not comply with the definition of business, the investor recognises the gain or loss only to the extent of the unrelated investors' interests.

These changes are not expected to have a significant effect on the consolidated annual accounts of the Group in the future.

IFRS 10 (Amended), IFRS 12 (Amended) and IAS 28 (Amended) "Investment entities: application of consolidation exception"

These changes clarify aspects of the application of the requirement for investment entities to value subsidiaries at fair value rather than consolidate them.

These changes are not expected to have a significant effect on the consolidated annual accounts of the Group in the future.

NIIF 16 "Leases"

In January 2016, IASB made public a new standard on leases which supersedes IAS 17 "Leases", as a result of a joint project with FASB. IASB and FASB have come to the same conclusions in many areas related to the accounting of lease contracts. IASB and FASB also agreed to refrain from making substantial changes in lessor accounting, maintaining similar requirements to those of the previous standard in effect. There continue to be differences between the IASB and FASB in regard to recognition and presentation of lease-related expenses in the income and cash flow statements.

Under IFRS-IASB, IFRS 16 must be applied as from 1 January 2019; IFRS 16 may be applied in advance, but only if IFRS 15 "Ordinary revenue from contracts with customers" is applied at the same time. IFRS 16 has not yet been endorsed by the EU.

The Group is analysing the impact that this standard may have on the consolidated annual accounts, if endorsed by the European Union.

<u>IAS 12 (Amended) "Recognition of deferred tax assets for unrealised losses"</u>: This change clarifies how to account for deferred tax assets related to investments in debt instruments measured at fair value. Decreases in book value under the cost of a fixed-rate debt instrument at fair value, and measured at cost for tax purposes, will give rise to deductible temporary differences. The estimation of probable future tax benefits may include the recovery of some of the assets of an entity over their book value, if sufficient corresponding evidence exists. This could be the case, for example, when an entity expects to maintain a fixed-rate debt instrument in its portfolio and collect contractual cash flows.

The change will come into effect for the financial years which start as from 1 January 2017, although it may be adopted in advance. In general, it will be applied retrospectively. Nevertheless, on the date of initial application of the change, there is the option of registering the change in equity of the comparative period against the opening balance of the reserve for retained earnings.

The Group is analysing the impact that this standard may have on the consolidated annual accounts, if endorsed by the European Union.

<u>IAS 1 (Amended) "Disclosure initiative - Changes in IAS 7"</u>: This limited scope change includes a requirement for additional detail in annual accounts which will permit financial statement users to value the changes in liabilities deriving from financing activities. In this regard, the following changes in such liabilities must be disclosed: i) changes arising from financing cash flows; ii) changes deriving from the gain or loss of control of subsidiaries or other businesses; iii) the effect of changes in exchange rates; iv) changes in fair value; and v) other changes.

The change will come into effect for the financial years which start as from 1 January 2017, although it may be adopted in advance. When an entity applies the change for the first time, it will not have the obligation to provide comparative information with prior financial years.

The Group is analysing the impact that this standard may have on the consolidated annual accounts, if endorsed by the European Union.

2.2 Principles of consolidation

a) <u>Subsidiaries</u>

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has the right, to obtain variable revenue from its involvement in the company and has the capacity to exercise its power thereon to include such revenue. Subsidiaries are consolidated as from the date in which control is transferred to the Group, and are excluded from consolidation on the date of discontinuation thereof.

In order to account for business combinations, the Group applies the acquisition method. The consideration transferred for the acquisition of a subsidiary corresponds to the fair value of the transferred assets, the liabilities incurred with the prior owners and the shares in equity issued by the Group. The consideration transferred includes the fair value of any asset or liability arising from a contingent consideration agreement. Acquired identifiable assets and liabilities and contingent liabilities taken on in a business combination are valued initially at fair value on acquisition date. For each business combination, the Group may opt to recognise any non-controlling interests in the acquired entity at fair value or as the proportional part of the non-controlling interest of the amounts recognised in the net identifiable assets of the acquired entity.

Acquisition-related costs are recognised as expenses in the financial years in which they are incurred.

If the business combination is carried out in phases, the amount in the books on the acquisition date of the share in the net equity of the acquired entity previously held by the acquirer is valued again at fair value on the acquisition date; any loss or gain arising from this new valuation is recognised in the income of the financial year.

Any contingent consideration to be transferred by the Group is recognised at fair value on the acquisition date. Subsequent changes in fair value of the contingent consideration which is considered an asset or a liability is recognised in compliance with IAS 39 in income or through other comprehensive income. The contingent consideration which is classified as net equity is not valued again and subsequent settlement is booked under net equity.

Inter-company transactions, the balances and unrealised gains in transactions between entities of the Group, are eliminated. Non-realised losses are also eliminated. Whenever necessary, the amounts presented by the subsidiaries are adjusted to adapt them to the accounting policies of the Group.

b) Changes in the shareholding in subsidiaries without change of control

Transactions with non-controlling interests which do not result in loss of control are booked as equity transactions; that is, as transactions with owners in their capacity as such. In the purchase of non-controlling interests, the difference between the fair value of the consideration paid and the corresponding proportion acquired of the book amount of net assets of the subsidiary is recorded under net equity. Gains or losses due to disposal of non-controlling interests are also recognised in net equity.

c) Disposal of subsidiaries

When the Group no longer has control, any retained share in the entity is valued again at fair value on the date on which control is lost, recognising the change in book value in income. The fair value is the initial book amount for the purposes of subsequent accounting of the retained interest as associate, joint venture or financial asset. Furthermore, any previously recognised amount in other comprehensive income in regard to said entity is accounted for as if the Group had sold the related assets and liabilities directly. This could mean that the previously recognised amounts in other comprehensive income are reclassified to the profit and loss account.

d) Associates

Associates are all those entities over which the Group exercises considerable influence but does not have control which, generally, is accompanied by a share of between 20% and 50% of voting rights. Investments in associates are booked using the equity method. Using this equity method, the investment is initially recognised at cost, and the book value is increased or decreased to recognise investor share in income of the associate after the acquisition date. Group investment in associates includes the goodwill identified in the acquisition.

If the shareholding in an associate is reduced but significant influence is maintained, only the proportional share of the amounts previously recognised in other comprehensive income is reclassified to income whenever appropriate.

Group share in losses or gains subsequent to the acquisition of its associates is recognised in the profit and loss statement, and its share in operations after acquisition in other comprehensive income is recognised in other comprehensive income with the corresponding adjustment to the book value of the investment. When the Group's share in the losses of an associate is equal to or greater than the share itself, including any other non-insured account receivable, the Group does not recognise additional losses, unless it has incurred in legal or implicit obligations or has made payments on behalf of the associate.

At each financial disclosure date, the Group determines if there is objective evidence of value impairment in the investment in the associate. If this were the case, the Group calculates the amount of the impairment loss as the difference between the redeemable amount of the associate and its book value, and recognises the amount corresponding to "share in profit/(loss) of an associate" in the profit and loss account.

Losses and gains from upstream and downstream transactions between the Group and its associates are recognised in the consolidated annual accounts of the Group only to the extent that corresponds to the shares of other non-related investors in the associates. Unrealised losses are eliminated unless the transaction provides evidence of impairment loss in the value of the transferred asset. The accounting policies of the associates have been modified when required to ensure consistency with the policies adopted by the Group.

Dilution losses and gains arising from investments in associates are recognised in the profit and loss account.

e) Joint arrangements

Investments in joint arrangements under IFRS 11 are classified as joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group does not exercise joint control over any company in its scope.

2.3 Financial information by segments

The information on operating segments is presented in compliance with internal information provided to the top decision-making authority. The top decision-making authority, responsible for assigning resources and valuing the performance of the operating segments, is identified as the Board of Directors or the Executive Committee.

Financial information by segments is shown in Note 5.

2.4 Transactions in foreign currency

a) Working and reporting currency

The items included in the annual accounts of each of the entities of the Group are valued using the currency of the main economic scenario in which the entity operates ("working currency"). All the Group entities have as working currency the currency of the country in which they are located, except the Mexican entity in the automotive segment, whose working currency was defined as from 1 January 2015, as the U.S. Dollar. This change has been made prospectively, in compliance with IAS 21. The consolidated annual accounts are presented in euros, which is the working and reporting currency of the parent company.

b) Transactions and balances

Transactions in foreign currency are converted to the working currency using the exchange rates in effect on the date of the transactions or valuations, in the case of items which have been revalued. Losses and gains in foreign currency resulting from the settlement of these transactions and from conversion using the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are recognised in the profit and loss account, unless they are deferred in other comprehensive income as qualified cash flow hedging and qualified net investment hedging. Losses and gains due to exchange rate differences are presented in the consolidated profit and loss account in the “Net exchange rate differences" item.

Changes in fair value of monetary securities in foreign currency classified as available for sale are analysed between exchange differences resulting in changes in amortised cost of the security and other changes in book amount of the security. Conversion differences regarding variations in amortised cost are recognised in the profit and loss account, and other changes in the amount are recognised in other comprehensive income.

Conversion differences in non-monetary items, such as equity instruments held at fair value through profit or loss, are recognised in the profit and loss account as part of the gain or loss in fair value. Conversion differences in non-monetary items, such as equity instruments classified as financial assets available for sale, are included in other comprehensive income.

c) Group entities

The income and financial position of all the entities of the Group (none of which have the currency of a hyperinflationary economy) whose working currency is other than the reporting currency, are converted to the reporting currency as follows:

(i) Assets and liabilities of each submitted balance sheet are converted at the closing exchange rate on balance sheet date;

(ii) Income and expenses of each profit and loss account are converted using the average exchange rates (unless such average is not a reasonable reflection of the accumulative effect of the rates existing on transaction dates, in which case income and expenses are converted on the transaction date); and

(iii) All resulting exchange rate differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are considered assets and liabilities of the foreign entity and are converted at the closing exchange rate.

2.5 Material fixed assets

Material fixed asset items are recognised at cost minus corresponding accrued depreciation and impairment losses, except in the case of land which is presented, if any, net of impairment losses.

Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the book amount of the asset or are recognised as a separate asset, whichever is applicable, only when it is likely that associated future financial profit associated thereto will flow to the Group and the cost of the item can be determined reliably. The book amount of the replaced part is written off. Remaining expenses for repairs and maintenance are assigned to the profit and loss account in the financial year in which they are incurred.

Land is not depreciated. The depreciation of other assets is calculated using the straight line method in order to assign their costs to their residual value over their estimated useful lives:

	Estimated useful life
Buildings	30 – 50
Technical installations and machinery	10 – 30
Other installations, tools and furniture	10
Other fixed assets	6 - 15

The residual value and useful life of assets are revised, and adjusted if necessary, at each balance sheet date.

When the book value of an asset is higher than its estimated redeemable value, the book amount is reduced immediately to the redeemable amount (Note 2.9).

Losses and gains from the sale of material fixed assets are calculated comparing the income obtained with the book value and are included in the profit and loss statement in the “Other net profit/(loss)” item (Note 26).

When revalued assets are sold, the amounts included in other reserves are transferred to voluntary reserves.

2.6 Interest costs

General and specific interest costs directly attributable to the acquisition, construction or production of eligible assets, which are those which necessarily require a substantial period of time before they can be put into service, are added to the costs of these assets during the period required to complete or prepare the asset for the service it is intended for. Other interest costs are assigned to expenses.

2.7 Investment properties

Real-estate investments include owned land and buildings (industrial units) which are maintained to earn income through sale or rent and are not occupied by Group companies. The elements included in this item are shown at acquisition cost minus their corresponding accrued depreciation and any impairment losses.

For the depreciation calculation of real-estate investments, the straight line method is used based on the estimated useful lives thereof, which is between 30 and 50 years.

2.8 Intangible assets

a) Emission rights

The emission rights designated to subsidiaries in compliance with the National Plan for Assignment (Law 1/2005 of 9 March) are registered as an intangible asset, valued at fair value (market value at the moment of assignment) with balance in deferred income.

Subsequently acquired emission rights, in order to cover the actual emission levels of gases produced by consolidated companies, are valued at acquisition cost.

Deferred income is assigned to profit and loss (Other income) based on the appropriation of expenses for the emissions associated with the rights received free of charge.

The costs generated by the emission of greenhouse gases are registered in compliance with the use of assigned and acquired emission rights, as such gases are emitted in the production process, with the balance in the corresponding provision item.

Emission rights registered as intangible assets are balanced out, as counterpart for the provision for costs generated by the emissions produced, at the moment of delivery to the Administration to cancel the committed obligations.

b) Software

Licences for acquired computer programmes are capitalised based on the cost incurred to acquire them and prepare the specific programme for use.

Costs associated with the development or maintenance of computer programmes are recognised as expense when incurred. Costs directly related to the production of unique and identifiable computer programmes controlled by the Group, and where it is probable that they will generate greater profit than costs during more than a year, are recognised as intangible assets. Direct costs include the expenses of personnel developing the computer programmes and a suitable percentage of general expenses.

Computer programmes acquired from third parties or developed by the company, recognised as assets, are depreciated during their estimated useful lives (4 to 8 years).

c) Research and Development expenses

Research costs are recognised as expense when incurred. Costs incurred in development projects (in relation to the design and testing of new or improved products) are recognised as intangible assets when the product can be identified correctly and separately; it is probable that it will be a success considering its technical and commercial viability; management has the intention to complete the project; it has the technical and financial resources to do so; there is capacity to use or sell the asset generating likely financial profit; and costs can be estimated reliably. Other development costs are recognised as expenses when incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent financial year.

Development costs, with a finite useful life which are capitalised, are depreciated from the start of commercial production of the product using a straight line method during the period in which it is expected to generate profit, without exceeding five years.

Development assets are submitted to impairment testing in compliance with IAS 36.

d) Trademarks and licences

Trademarks and licences acquired from third parties are shown at historical cost. They have a determined useful life and are shown at cost minus accrued depreciation. Depreciation is calculated using the straight line method in order to assign the cost of trademarks and licences during their estimated useful lives.

2.9 Impairment loss of non-financial assets

Intangible assets with an indefinite useful life are not subject to depreciation and are submitted annually to impairment testing or, more frequently, when there are changes in circumstances which would indicate that they could have suffered impairment in value. Other depreciable assets are submitted to impairment testing whenever an event or change in circumstances would indicate that the book value may not be redeemable. If the estimated redeemable value is lower than the net book value of the asset, the corresponding impairment loss is registered in the consolidated profit and loss account, reducing the book value of the asset to its redeemable value. The redeemable value is the greater between the fair value of an asset less disposal costs and its value in use. For the purposes of measuring impairment, assets are grouped at the lowest levels for which there are separate and identifiable cash flows which are to a large degree independent of cash flows from other assets or groups of assets (cash generating units).

Impairment loss of non-financial assets (other than goodwill) are revised for possible reversion on each date of financial reporting.

2.10 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups of elements) are classified as assets held for sale when their value will be redeemed mainly through their sale, providing the sale is considered to be highly probable. These assets are valued at the lesser between the book value and fair value minus cost of sale.

2.11 Financial Assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose behind the acquisition of the financial assets. Management determines the classification of its financial assets on initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired mainly with the intention to sell in the short term. Derivatives are also classified as held for trading unless they are designated as hedging. The assets of this category are classified as current assets if they are expected to be liquidated in twelve months; otherwise, they are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and not listed in an active market. They are included in current assets, except for maturities of over 12 months from date of balance sheet, in which case they are classified as non-current. Loans and receivables include non-current financial assets, trade and other accounts receivable and other current assets in the balance sheet.

c) Financial assets available for sale

Financial assets available for sale are non-derivatives which are assigned to this category or are not classified in any of the other categories. The are included in non-current assets unless they expire in the twelve months following the balance sheet date or management intends to dispose of the investment in such period.

2.11.2 Recognition and measurement

Acquisitions and disposals of investments are recognised on the trading date; that is, the date on which the Group undertakes to acquire or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets that are not valued at fair value through profit or loss. Financial assets valued at fair value through profit or loss are recognised initially at fair value, and transaction costs are assigned to the profit and loss account. Financial assets are written off the balance sheet when the right to receive cash flows from the investments has expired or has been transferred and the Group has substantially transferred all risks and advantages deriving from their holdership. Financial assets available for sale and financial assets at fair value through profit or loss are subsequently booked at fair value. Loans and receivables are registered at amortised cost in compliance with the effective interest rate method.

Gains or losses deriving from changes in fair value of the "financial assets at fair value through profit or loss" category are shown in the profit and loss account in the "Other net gains/(losses)" item in the period in which they originate. Income from dividends of financial assets at fair value through profit or loss are recognised in the profit and loss statement in the "Other income" item when the right of the Group to receive payment is established.

Changes in fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accrued adjustments in fair value recognised in net equity are included in the profit and loss account as "losses and gains from investment securities".

Interest from securities available for sale, calculated using the effective interest rate method, is recognised in the profit and loss account as a part of other income. Dividends from net equity instruments available for sale are recognised in the profit and loss account as a part of other income when the right of the Group to receive these payments is established.

2.11.3 Balancing of financial instruments

Financial assets and liabilities are offset, and the net amount is shown in the balance sheet, when there exists a legally enforceable right to balance the recognised amounts, and the Group has the intention to liquidate the net amount, or to realise the asset and cancel the liability simultaneously. The legally enforceable right should not be contingent depending on future events and should be enforceable in the normal course of business and in the case of non-compliance, insolvency or bankruptcy of the company or counterpart.

2.11.4 Impairment loss of financial assets

a) Assets at amortised cost

The Group values at each balance sheet date if there is objective evidence that a financial asset or group of financial assets has suffered impairment loss. A financial asset or group of financial assets is impaired and incurs in impairment loss if, and only if, there is objective evidence of impairment as a result of one or more events which have occurred after initial recognition of the asset (an "event which causes loss") and this event (or events) causing said loss has an impact on estimated future cash flows of the financial asset or group of financial assets, which can be estimated reliably.

Evidence of impairment loss can include indications that the debtors or group of debtors are undergoing serious financial difficulties; non-payment or arrears in the payment of interests or the principal; likelihood of start of bankruptcy proceedings or any other financial restructuring situation; and when observable data indicate that there is an evident decrease in estimated cash flows, such as changes in payment terms or in the financial conditions associated with non-payment.

For the loans and receivables category, the amount of the loss is measured as the difference between the book value of the asset and the current value of estimated future cash flows discounted at the original effective interest rate of the financial asset. The book value of the asset is reduced and the amount of loss is recognised in the consolidated profit and loss account. If a loan or investment held until maturity bears a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined in compliance with the contract. As a practical measure, the Group can estimate the impairment based on the fair value of an instrument using an observable market price.

If, in a later period, the impairment amount decreases, and the decrease can be objectively attributed to an event that occurs after the impairment is recognised, the reversion of the previously recognised impairment will be recognised in the consolidated profit and loss account.

2.12 Financial derivatives and hedging activity

Derivatives are initially recognised at fair value on the date of signature of the derivative contract. After initial recognition, they are valued again at fair value. The method for measuring the resulting loss or gain depends on whether the derivative has been designated as a hedging instrument and, if so, the nature of the item it is hedging. During FY 2015, the Group has engaged new derivatives which have been designated as cash flow hedging (Note 9).

At the beginning of the transaction, the Group documents the relationship existing between the hedging instruments and the hedged items, as well as their objectives in risk management and the strategy behind engaging various hedging transactions. The Group also documents, both at the beginning and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in compensating the change in fair value or cash flow of the hedged items.

The fair value of certain derivatives used as hedging instruments is shown in Note 9. Changes in hedging reserve included in net equity are shown in the consolidated comprehensive income statement. The entire fair value of a hedging derivative is classified as non-current asset or liability if the expiry of the residual hedged item exceeds 12 months, and as current asset or liability if the expiry of the residual hedged item is under 12 months. Trading derivatives are classified as current assets or liabilities.

a) Cash flow hedging

The effective part of changes in fair value of derivatives designated and classified as cash flow hedging is recognised in other comprehensive income. The loss or gain associated with the ineffective part is recognised immediately in the profit and loss account in the "Result of financial instruments at fair value".

The amounts accrued in net equity are reclassified in the profit and loss account in the periods in which the hedged item affects income (for example, when the planned sale takes place). Loss or gain associated with the effective part of interest rate swaps which cover variable interest loans is recognised in the profit and loss account in the "financial income/expenses" item. Nevertheless, when the planned hedged transaction implies the recognition of a non-financial asset (for example, stock or material fixed assets), the previously deferred losses and gains in net equity are transferred from equity and are included in the initial valuation of the asset cost. Deferred amounts are registered finally in the cost of sold goods, in the case of stock, or in depreciation, in the case of material fixed assets.

When a hedging instrument expires or is sold, or when it ceases to fulfil the requirements for hedge accounting, any accrued gain or loss in net equity up to that moment remains in equity and is recognised when the planned transaction is finally recognised in the profit and loss account. When it is expected that the planned transaction will not finally materialise, the accrued gain or loss in net equity is transferred immediately to the profit and loss account.

b) Derivatives which do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting and are recognised at fair value through profit or loss. Changes in fair value of any derivative which does not qualify for hedge accounting are recognised immediately in the profit and loss account.

2.13 Inventories

Stocks are valued at cost or net realisable value, whichever is lower. Cost is mainly determined using the average cost method. The cost of finished and semi-finished products includes the cost of raw materials, direct labour, other direct costs and general manufacturing costs (based on normal operating capacity), but does not include interest costs. The net realisable value is the sales price estimated in the normal course of business, minus applicable variable sales costs. Obsolete or slow-moving items are reduced to their realisable value.

2.14 Trade accounts receivable

Trade accounts receivable are amounts owed by customers for the sale or goods or services in the normal course of business. If the debt is expected to be collected in a year or less (or in the normal operating cycle, if longer), they are classified as current assets. Otherwise, they are classified as non-current assets.

Trade accounts receivable are initially recognised at fair value and subsequently at amortised cost in compliance with the effective interest rate method, minus the provision for value impairment.

Financing through discounted bills is not written off the customer’s item until payment thereof, registering this as bank financing. Furthermore, certain contracts are engaged with banks through which all the risks and benefits, as well as control, of receivables are transferred. In these cases, receivables are written off the balance sheet at the time of transfer of the risks and benefits to the bank.

To cover certain customer collection risks, insurance contracts are engaged which cover the risks of non-payment by means of payment of insurance premiums.

2.15 Cash and equivalents

Cash and equivalents include cash in hand, sight deposits in banks, other highly liquid short term investments with original expiry of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are classified as borrowed capital in current liabilities.

2.16 Capital stock

Ordinary shares are classified as net equity.

Incremental costs directly attributable to the issue of new shares are shown in net equity as a deduction, net of taxes, of revenue obtained.

When any Group entity acquires Company shares (treasury stock), the consideration paid, including any directly attributable incremental cost (net of taxes on profit) is deducted from net equity attributable to the holders of equity instruments of the Company until cancellation, new issue or disposal. When these shares are subsequently re-issued, all the amounts received, net of any directly attributable incremental cost of the transaction and the corresponding effect of tax on profit, are included in the net equity attributable to the holders of the Company.

2.17 Trade accounts payable

Trade accounts payable are obligations to pay for goods or services which have been acquired from suppliers in the ordinary course of business. Payables are classified as current liabilities if the payments are due in one year or less (or are due in the normal operating cycle, if longer). Otherwise, they are classified as non-current liabilities.

Trade accounts payable are initially recognised at fair value, and subsequently at amortised cost using the effective interest rate method.

2.18 Borrowed capital

Borrowed capital is initially recognised at fair value minus any transaction costs incurred. Afterwards, borrowed capital is valued at amortised cost; any difference between the amount received (net of transaction costs) and the amortisation amount is recognised in the profit and loss account during the repayment period of the borrowed capital, using the effective interest rate method.

Borrowed capital is classified as current liabilities unless the Group has the unconditional right to defer settlement during at least 12 months after the balance sheet date.

2.19 Current and deferred taxes

The parent company pays taxes under a consolidated declaration with certain subsidiaries (Note 28).

Tax expense for the period includes current and deferred taxes. Taxes are recognised in income, except to the extent that they refer to items recognised in other comprehensive income or directly in net equity. In this case, the tax is also recognised in other comprehensive income or directly in net equity, respectively.

Current tax expense is calculated in compliance with approved or imminent legislation at balance sheet date in the countries where the Company and its subsidiaries operate, and for those that generate positive taxable income. Management regularly revises the positions taken in tax returns with respect to situations where the applicable taxation rules are subject to interpretation and, if necessary, makes provisions depending on the amounts expected to be paid to the tax authorities.

Deferred taxes are recognised in the temporary differences which arise between the taxable amount of assets and liabilities and their book amounts in consolidated annual accounts. Nevertheless, deferred taxes are not entered in the accounts if they arise from the initial recognition of an asset or liability in a transaction, other than a business combination which, at the time of the transaction, does not affect either the accounting result or the tax gain or loss. Deferred tax is determined using approved or imminent tax rates (and laws) on the balance sheet date which are expected to be in effect when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is likely that there will be future tax profit to balance out the temporary differences. In the case of deductions for investments or deductions for R&D&i, the balance of recognised amounts is the Deferred income account. The amount booked as a lesser expense is accrued along the period in which the material fixed assets and R&D&i expenses which have generated tax credit are amortised.

Deferred tax liabilities are recognised on taxable temporary differences associated with investments in subsidiaries, associates and joint agreements, except for those deferred tax liabilities for which the Group can control the date in which the temporary differences will be reversed and it is possible that they will not have an effect in the foreseeable future. Generally, the Group is unable to control the reversal of temporary differences for associates. The temporary difference is not recognised only when there is an agreement which grants the Group the capacity to control the reversal thereof.

Deferred tax assets are recognised in the deductible temporary differences from investments in subsidiaries, associates and joint agreements only to the extent that it is likely that the temporary difference will be reversed in the future and there is expectation to have sufficient tax gain to balance out the temporary difference.

Deferred tax assets and liabilities are balanced out if, and only if, there exists a legally recognised right to offset current tax assets with current tax liabilities and when the deferred tax assets and liabilities derive from tax on profit corresponding to the same tax authority, and are applicable to the same entity or taxpayer, or different entities or taxpayers, that intend to settle current tax assets and liabilities in their net amount.

2.20 Employee benefits

a) Pension-related commitments

There are various pension schemes in some of the Group companies, with defined contributions in all cases, which are financed by means of payments into external Voluntary Mutual Benefits Organisations (EPSV). Beneficiaries of these schemes are the workers of Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L.U (single-shareholder company) and of Productos Tubulares, S.A. (single-shareholder company) (1,493 beneficiaries in 2015 and 1,498 beneficiaries in 2014) who have voluntarily adhered to the Organisation.

A defined contributions scheme is a pension scheme in which set contributions are made to a separate entity, on a contractual basis, wherein the Group has no legal or implicit obligation to make additional contributions if the fund does not dispose of sufficient assets to pay all employees the amounts corresponding to the services rendered in the current financial year and in prior years.

The entity does not assume any risk in the capitalisation period of the contributions, nor guarantees a minimum interest to the beneficiaries.

The contributions are recognised as employee benefits when accrued.

b) Severance pay

Severance pay is paid to employees as a consequence of the Group's decision to terminate their contract before normal retirement age or when the employee voluntarily accepts to leave in exchange for such payment. The Group recognises this benefit on the first of the following dates: a) when it has provenly undertaken to terminate the contracts of current employees in compliance with a detailed formal plan without possibility of retraction; or b) when the entity recognises restructuring costs under IAS 37 and this entails the payment of severance pay. When an offer is made to encourage the voluntary resignation of employees, severance payments are valued according to the number of employees expected to accept such offer. The benefits that are not going to be paid in the twelve months following the balance sheet date are discounted from the current amount.

c) Variable payment schemes

The Group recognises a liability and an expense in some companies as variable payment based on formulas which take into account business trends and results. The Group recognises a provision when it is contractually under obligation or, for any other reason, is required to make this payment.

2.21 Provisions

Provisions for specific risks and expenses are recognised when:

(i) The Group has a legal or implicit current obligation as a result of past events;

(ii) It is probable that an outlay will be required to settle the obligation; and

(iii) The amount can be estimated reliably.

Provisions are not recognised for future operating losses.

When there is a number of similar obligations, the probability of having to make an outlay for settlement is determined considering the type of obligation as a whole. A provision is recognised even if the probability of an outflow of cash with respect to any item included in the same type of obligation could be small.

Provisions are valued at the current value of outlays expected to be required to settle the obligation, using a pre-tax rate which reflects current market evaluation of the time value of money and the specific risks of the obligation. The increase in provisions on the grounds of passage of time is recognised as interest expense.

2.22 Recognition of income

Ordinary income is valued at fair value of the consideration received or to be received, and represents receivables for sold goods, net of discounts, refunds and value-added tax. Ordinary income is recognised when the income can be reliably measured, it is probable that the entity will receive a future financial profit and when certain conditions are fulfilled for each of the Group's activities, described below. The Group bases its refund estimations on past experience, considering the type of customer, type of transaction and the specific circumstances of each agreement.

a) <u>Sale of goods</u>

Sale of goods is recognised when the Group entity has transferred to the purchaser significant risks and benefits deriving from the ownership of the goods, and does not retain any implication in the routine management of the sold goods, to the degree normally associated with ownership, nor retains effective control thereof.

b) <u>Sale of services</u>

The sale of services is recognised in the accounting period in which the services are provided, with reference to the completion of the transaction valued according to the actual service provided as a percentage of the total service to be provided.

c) Interest income

Interest income is recognised using the effective interest rate method. When a receivable suffers impairment, the Group reduces its book value to its redeemable value, discounting estimated future cash flows at the original effective interest rate of the instrument, and continues to register the discount as lesser interest income. Loan interest income which has suffered impairment is recognised when the cash is collected or based on cost recovery when the conditions are guaranteed.

d) Dividend income

Income from dividends is recognised when the right to receive payment is established.

2.23 Leaseholds

Financial leases

Tangible fixed asset leases in which the Group substantially has all the risks and benefits deriving from holding of the asset are classified as financial leases. Financial leases are capitalised at the beginning of the leasehold period, at the lesser between fair value of the leased asset and the current value of minimum leasehold payments.

Each leasehold payment is shared out between liability and financial burden. The corresponding leasehold obligations, net of financial charges, are included in long term payables. The corresponding part of the interest on financial charges is assigned to the profit and loss account during the leasehold period so as to obtain a constant periodic interest rate on the debt pending repayment in each period. Material fixed assets acquired through financial lease are amortised during the useful life of the asset or leasehold period, whichever is shorter.

Operating leases

Leaseholds in which the lessor retains a significant part of the risks and benefits deriving from holding are classified as operating leases. Payments made as operating lease (net of any incentive received from the lessor) are assigned to the profit and loss account on a straight-line basis during the leasehold period.

2.24 Distribution of dividends

The distribution of dividends to shareholders is recognised, if pending payment, as a liability in the consolidated annual accounts of the Group in the financial year in which the dividends are approved by the Shareholders' Meeting and/or the Board of Directors of the parent company.

2.25 Environment

Expenses deriving from corporate actions addressing the protection and improvement of the environment are registered as expenses in the financial year in which they are incurred. When such expenses entail the incorporation of material fixed assets, whose purpose is to minimise environmental impact and environmental protection and improvement, they are registered as greater value of the assets.

The expenses deriving from greenhouse gas emissions (Law 1/2005 of 9 March) are registered, at fair value or the cost of assigned or acquired emission rights, as such gases are emitted during the production process, with balance in the corresponding provision account.

3. Financial risk management

3.1 Financial risk factors

Group activities are exposed to various financial risks: market risk, credit risk, liquidity risk and risk in the variation of commodity prices. The comprehensive risk management programme focuses on the uncertainty of financial markets and endeavours to minimise the potentially adverse effects thereof on the financial cost-effectiveness of the Group.

Risk management is handled by the Financial Department of each of the companies, under the supervision and co-ordination of the Group's Financial Management and in compliance with the policies approved by the Board of Directors. The operating units of the different companies identify, measure and cover the financial risks in close co-operation with the General Management of the Group.

a) Market risk

(i) Exchange rate risk

The Group operates internationally and, therefore, is exposed to exchange rate risk for operations in foreign currency, especially the U.S. Dollar. Exchange rate risk arises from future trade transactions and recognised assets and liabilities.

Exchange rate risk arises when future trade transactions or recognised assets or liabilities are denominated in a currency which is not the working currency of the entity that conducts the transaction. Management has established a foreign exchange rate risk management policy with respect to the working currency. Exchange rate risk essentially arises from sales made in U.S. Dollars which, in FY 2015, totalled 160 million euros (200 million euros in 2014) and the purchase of raw materials and other supplies during FY 2015 which amounted to an expense of 36 million euros (44 million euros in 2014).

The Group uses derivatives (exchange insurance) to cover or curb the risk of exchange rate oscillations in the described transactions. Even if these are engaged to cover this risk, hedge accounting does not apply to these instruments.

During FY 2015, the amount of these contracts totalled 79 million U.S. Dollars (199 million U.S. Dollars in 2014). The forward currency buying and selling contracts held by the Group at 31 December, 2015, are detailed in Note 9.

If, at 31 December 2015, the euro would have weakened/strengthened by 5% with respect to the U.S. Dollar, with remaining variables constant, the result after taxes of the financial year would have been 748 million euros (2014, 1,414 million euros) higher/lower, mainly due to exchange rate differences in the conversion to euros of the trade receivables account denominated in U.S. Dollars.

The Group does not consider the exposure to exchange rate variations of net investments abroad a significant risk, given that despite the fact that the net assets held in such companies total 50.6 million euros at 31 December 2015 (51.2 million euros at 31 December 2014), such assets are financed by liabilities in foreign currency and the net equity of such companies is not relevant.

(ii) Interest rate risk on borrowed capital

The main interest rate risk of the Group arises from the long term financial debt with variable rates, which exposes the Group to an interest rate risk on cash flow. During 2015 and 2014, Group loans at variable interest rate are mainly denominated in euros. The Group maintains a policy of permanent monitoring of their trends and the effect of a theoretical change in rates in the annual accounts of the Group.

The current policy of the Group is to maintain a portion of its financial debt at fixed rate using interest rate swaps to cover part of the debt at variable interest rate.

The fixed rate financial debts are registered at amortised cost. Therefore, they are not subject to interest rate risk as defined in IFRS 7, given that neither the book value nor the future cash flows will fluctuate due to a change in market interest rates. At 31 December 2015, around 12% of the Group's debt was at fixed interest (at 31 December 2014, the entire debt was at variable rate).

Furthermore, the Group started in FY 2015 to manage part of its cash flow interest rate risk by means of interest rate swaps from variable to fixed interest. Under these swaps, the Group agrees with other parties to swap, at certain intervals (generally quarterly), the difference between the fixed and variable interest rate amounts referenced to the agreed notional principal.

Instruments used by the Group

The swaps currently in effect cover around 5% (in the 2014 financial year, the Group did not engage in interest rate swaps) of the principal of variable rate loans. The contracts require settlement of the net interest to be collected or paid every 90 days. The settlement dates coincide with the dates in which the interest accrues on the underlying debt and settlement is made on a net base.

Sensitivity

The result of the financial year is sensitive to the direct effects of a change in rates on financial instruments subject to variable interest recognised in the consolidated balance sheet. The sensitivity of the consolidated profit and loss account of the Group to a variation of half a percentage point in interest rates signifies, in FY 2015, an increase/decrease of around 19% (15% in FY 2014) on current costs, and it signifies an effect of 15% in financial expenses of FY 2015 (9% in FY 2014).

b) Credit risk

Credit risk arises from cash and other equivalent liquid assets, derivatives and deposits in banks and financial institutions, as well as from exposure to credit with customers, including trade receivables and agreed transactions. For banks and financial institutions, only those classified through independent ratings are accepted, with a minimum "A" rating, hence credit risk arising from cash amounts and from financial assets and deposits is considered low, given the credit rating of the institutions with which the Group works.

In regard to the risk arising from sales operations, the Group has established policies to guarantee that practically all sales are made covering credit risk and insuring collection.

All the Group's customers have their corresponding risk rating. On receipt of the order, the solvency of each customer is analysed and risk coverage is requested from the Insurance Company. The insurance contract is engaged with Compañía Española de Seguro de Crédito a la Exportación (CESCE).

In order to accept an order, credit risk has to be covered by CESCE. Otherwise, the order is suspended while other possible risk coverage is obtained, such as: customer guarantee (confirmed letter of credit, confirming, etc.), factoring/forfaiting without recourse and, lastly, advance payment. Additionally, the Group grants without recourse to various financial entities a part of its receivables so that, given that a significant part of the risks and benefits are transferred, it can proceed to write off from customer balances the amounts of said transferred receivables. At 31 December 2015, the Group has written off the amount of 25,817,000 euros under various factoring without recourse contracts (21,871,000 euros in 2014). The cap for these contracts is 52.2 million euros (25.9 million euros at 31st December, 2014).

In the seamless tube segment, 83% of sales were insured with CESCE (79% in 2014), having granted such coverage by means of factoring without recourse contracts engaged with financial entities for 36% of sales (9% in 2014), while coverage through customer guarantees such as letters of credit accounted for 8% (6% in 2014), 6% was charged in advance (4% in 2014) and the remaining 3% (2% in 2014) was collected in a different way.

In the distribution segment, 90% of sales were insured by CESCE (93% in 2014), having granted such coverage by means of factoring without recourse contracts engaged with financial entities for 25% of sales (0% in 2014), while coverage by means of customer guarantees through letters of credit accounted for 7% (5% in 2014), and of the remaining amount, 3% was charged in advance (2% in 2014).

Thus, the Group does not have significant concentrations of credit risk as this is determined, mainly, by the non-covered percentage, in case of insolvency, convened with each insurance company. With CESCE, coverage is 95% for trade risk (90% in 2014) and 99% for political risk. In cases of factoring without recourse, the entire receivable is sold, and therefore the Group does not retain any collection risk.

The maximum deadline for notifying CESCE of a possible non-payment is 90 days from the due date. During this period, the Group handles the collectability of the overdue amounts and, if it does not reach a satisfactory payment agreement, proceeds to notify the non-payment to the corresponding Insurance Company and to make a provision for insolvency of the uncovered part of the debt.

c) Liquidity risk

A prudent liquidity risk management implies having sufficient cash and negotiable securities, the availability of financing by means of a sufficient sum of committed credit facilities and having the capacity to settle market positions.

Given the ever-changing nature of the business of each of the Group companies, the Finance Departments of each unit, co-ordinated by the General Management of the Group, pursue maintaining flexibility in financing through the availability of committed lines of credit. Additionally, the Group uses liquidity instruments (factoring without recourse through which the risks and benefits of receivables are transferred), in order to maintain liquidity levels and the working capital structure required in its business plans.

Exhaustive control of working capital (current assets minus current liabilities), the absence of excessive risk concentration on any financial entity and permanent follow-up of indebtedness and generation of funds permit adequate control of the liquidity risk of the business.

(Thousands of euros)

Management monitors the liquidity reserve forecasts of the Group, which include availability of credit (Notes 19 and 13), cash and equivalents (Notes 12 and 13) and current financial assets (Notes 8 and 13) with respect to expected cash flows.

The liquidity reserve at 31 December, 2015 and 2014 is as follows:

	2015	2014
Liquidity Reserve		
Cash and other liquid assets (Note 12)	26,955	18,293
Other current financial assets	5,392	6,171
Undrawn lines of credit (Note 19)	93,965	65,666
Liquidity Reserve	126,312	90,130
Net borrowed capital		
Borrowed capital (Debts with credit institutions and other debts) (Note 19)	203,386	196,076
Cash and other liquid assets (Note 12)	(26,955)	(18,293)
Other current financial assets	(5,392)	(6,171)
Net borrowed capital	171,039	171,612

Bearing in mind that borrowed capital includes long term debts shown in the balance sheet in the amount of 161 million euros (2014, 156 million euros) and taking into consideration the cash flow generation capacity of the Group, liquidity problems are not expected. The Group has conducted an analysis of cash flow generation during the 2016 financial year, estimating the continuation of liquidity levels through to the end of the 2016 financial year.

As shown in the foregoing table, the Group currently disposes of 94 million euros in undrawn lines of credit. Furthermore, the Group has the possibility of access to additional financing through the issue of non-convertible bonds in the amount of 34.5 million euros by means of a debt issue scheme approved in December, 2015 (Note 19).

(Thousands of euros)

The table below shows an analysis of the financial liabilities of the Group, by due date, which will be settled in compliance with outstanding periods at balance sheet date up to the agreed expiry of the contract. The amounts shown in the table correspond to cash flows (including payable interests in the case of debts with credit institutions) agreed in the contract without discount.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 31st December, 2015					
Debts with credit institutions	47,681	45,352	103,402	3,256	199,691
Other borrowed capital	879	1,677	4,822	16,519	23,897
Other payables	104,690	6,653	20,527	16,134	148,004
At 31st December, 2014					
Debts with credit institutions	46,318	46,588	102,336	18,794	214,036
Payables	122,277	6,744	13,753	11,143	153,917

The liquidity management analysis conducted through the financial departments of the Group companies, co-ordinated by the General Management of the Group, does not foresee liquidity strains which cannot be covered by current or future financial means which may be available to the Group.

d) <u>Risk of variation in raw material prices</u>

In regard to the risk of fluctuation in commodity prices, basically scrap metal, the companies of the Group protect themselves against this characteristic risk by means of diversification of markets and suppliers, with ongoing and specific follow-up of supply and demand, and management of stock volumes.

Even if scrap metal is not a listed commodity, it has a fairly uniform market price worldwide. Scrap metal consumption is 1.20 Kg of scrap per kg of tube sold, with an average purchase price in 2015 of 216.62 euros/tn (264 euros/tn in 2014), which represents 16.80% on the sales price of the tube (23.1% in 2014).

During the course of 2015, the price oscillated between a maximum of 253 euros/tn and a minimum of 157 euros/tn (285.9 euros/tn - 241.0 euros/tn in 2014). Scrap metal price oscillation is transferred to the customer as far as possible.

A variation of 1% in the purchase price of scrap metal would have an effect of 0.17% (0.23% in 2014) on the sales price and of 298,000 euros (715,000 euros in 2014) in the profit and loss account.

(Thousands of euros)

3.2 Estimation of fair value

The table below includes an analysis of financial instruments measured at fair value, classified using the valuation method. The different levels have been defined as follows:

- (Unadjusted) listed prices in active markets for similar assets and liabilities (Level 1).
- Data other than listed prices included in Level 1, which are observable, whether directly (for example, reference prices) or indirectly (for example, price derivatives) (Level 2).
- Data for assets and liabilities which are not based on observable data of the market (non-observable inputs) (Level 3).

The following table shows the Group's assets and liabilities measured at fair value at 31st December, 2014 and 2015:

2015 Financial Year

	Level 1	Level 2	Level 3	Total 31.12.15
ASSETS				
Assets at fair value through profit or loss:				
- Derivatives	-	24	-	24
TOTAL ASSETS AT FAIR VALUE	-	24	-	24
LIABILITIES				
Liabilities at fair value through profit or loss:				
- Derivatives	-	114	-	114
Derivatives used as hedging:				-
- Interest rate swaps	-	54	-	54
TOTAL LIABILITIES AT FAIR VALUE	-	168	-	168

2014 Financial Year

	Level 1	Level 2	Level 3	Total 31.12.14
ASSETS				
Assets at fair value through profit or loss:				
- Derivatives	-	-	-	-
TOTAL ASSETS AT FAIR VALUE	-	-	-	-
LIABILITIES				
Liabilities at fair value through profit or loss:				
- Derivatives	-	2,715	-	2,715
TOTAL LIABILITIES AT FAIR VALUE	-	2,715	-	2,715

The fair value of financial instruments traded on active markets is based on market prices at balance sheet date. The listed market price used for financial assets is the current bid price. These instruments are included in Level 1. A market is considered active when the list prices are easily and regularly available through a stock exchange, financial brokers, sector-wide institution, price service or regulating board, and those prices reflect current market transactions which come about regularly, between parties that act under mutual independence conditions.

The fair value of financial instruments that are not listed on active markets is measured using valuation techniques. Group companies use a variety of methods such as estimated discounted cash flows and make assumptions based on existing market conditions at each balance sheet date. These methods include listed market prices or prices established by financial brokers for similar instruments. The fair value of interest rate swaps is calculated as the actual value of estimated future cash flows based on estimated interest rate curves. The fair value of forward exchange rate contracts is determined using the forward exchange rates listed in the market at balance sheet date. It is assumed that the book value of credits and debits for trade operations is close to their fair value. The fair value of financial liabilities for the purposes of financial reporting is estimated discounting future contractual cash flows at the current market interest rate which is available to the Company for similar financial instruments.

If all the data required for measuring a financial instrument at fair value are observable in the market, the financial instrument is included in Level 2.

If one or more significant figures are not based on observable market data, the financial instrument is included in Level 3.

3.3 Capital risk management

The Group's objective with regard to capital management is to safeguard its capacity to continue as an ongoing concern and to ensure a profit for shareholders. Meeting this objective requires maintaining an optimum capital structure, reducing the cost thereof.

In order to maintain or adjust capital structure, the Group can use the amount of dividends payable to shareholders, and the sale of assets to reduce the debt, amongst others.

The Group monitors capital in compliance with the leverage ratio, in line with practices in the sector. This ratio is calculated as borrowed capital and other liabilities minus other cash equivalents and other current financial assets divided by total capital. Total capital is calculated as net equity, as shown in the consolidated annual accounts, plus the concept explained above.

(Thousands of euros)

Leverage ratios at 31st December, 2015 and 2014 were the following:

	2015	2014
Borrowed capital and other liabilities (*)	265,213	244,033
Minus: Cash and other equivalent liquid assets and other current financial assets	(32,347)	(24,464)
	232,866	219,569
Net equity	244,175	260,936
Total capital	477,041	480,505
Leverage ratio	48.81%	45.70%

(*) "Borrowed capital and other liabilities" include long and short term borrowed capital (Note 19), suppliers of assets, leasehold creditors, debts with official organisations for subsidised loans and other debts with Public Administration (Note 18).

4. Accounting estimations and assumptions

Estimations and assumptions are valued on an ongoing basis and are based on past experience and other factors, including the expectation of future events which are deemed reasonable under the circumstances.

4.1 Relevant accounting estimations

The Group makes estimations and assumptions in regard to the future. The resulting accounting estimations, by definition, rarely equal the corresponding actual results. Below is an explanation of the estimations and assumptions that may lead to a material adjustment in the book amounts of assets and liabilities in the following financial period.

1. <u>Impairment of assets</u>

As described in Note 6, Group Management has conducted an analysis of asset impairment based on the existing business plan for the different CGUs and for the Group, which have been updated at the close of the financial year. The preparation of such business plan includes estimations in regard to the development of Group business. They include the main variables of the profit and loss account. In this regard, a business plan has been drawn up using realistic estimations and without considering especially significant or unlikely business growth. Nevertheless, the business plan includes many estimation variables which have been considered both in the analysis of asset impairment and in the analysis of payback of tax credits (Note 20).

2. <u>Tax on profits and deferred tax assets</u>

The legal situation of the tax regulations applicable to certain companies of the Group implies that there are estimations and uncertain ultimate quantification of tax. The calculation of tax is conducted according to Management's best estimate, in compliance with the situation of current tax regulations and bearing in mind the foreseeable trends thereof (Note 28). When the final tax result is different from the amounts initially recognised, such differences will have an effect on tax on profits in the financial year in which such determination is made.

Deferred tax assets are registered for all deductible negative differences, negative taxable amounts pending carryover and deductions pending application for which it is probable that the Company and/or tax Group to which it belongs will have future tax gains which will allow the balance of these assets. In order to determine the deferred tax assets amount that can be registered, the Directors of the Parent Company have conducted an analysis of payback of tax credits entered in the balance sheet based on estimated taxable amounts in compliance with the strategic plan of the Group, taking into consideration an estimation period of 10 years as well as the statute of limitations for such tax credits, in compliance with current tax regulations. The plan allows reasonable justification of the payback of registered tax credits (Note 20).

3. <u>Useful lives of material fixed assets</u>

Company Management determines the estimated useful lives and corresponding depreciation amounts for its plant and equipment. This estimation will increase/decrease the depreciation amount when the useful lives are less/greater than the previously estimated lives or will depreciate or write off technically obsolete or non-strategic assets which have been abandoned or sold.

During the 2013 financial year, and in compliance with a new estimation of useful life for certain material assets, as a consequence of the development and manufacture of new products by a Group subsidiary and endorsed by an internal technical study carried out for such purposes, the useful life of certain installations and machinery was increased from 15 years to 20-30 years. This re-estimation arose as a consequence of the Investment Plan approved within the context of the Strategic Plan of the Group for the purposes of developing new steels and products and new production processes. This plan included an analysis of the useful life of the assets affected by the development of this Plan. For certain elements, a study was conducted on the response capacity to future special steel and new product manufacturing demands, determining the available useful lives. The result of this study prompted said re-estimation of useful lives. The gross value of these assets at 31 December 2015 and 2014, totalled around 20 million euros. The effect of this change of estimation in the 2013 and following financial years has been a reduction in depreciation cost of around 1 million euros per year.

4.2 Important assumptions on applying accounting policies

The most significant assumptions and estimations which have had to be considered in the application of accounting policies described in Note 2 correspond to:

- Covenants. The Group has to comply with certain covenants at the end of the financial year (Note 19). Before the close of the financial year, given the foreseeable non-compliance with the ratios required for the BEI and ICO loans, an agreement was reached with both entities pursuant to obtaining a waiver. In the case of BEI, even if the waiver granted provides exemption from complying with the ratios at 31 December 2015, compliance with ratios is required for 2016. In this regard, the possibility exists that the agreed conditions will not be met in the 2016 financial year in the current market conditions. Nevertheless, the Group's Management understands that, based on the experience acquired with BEI, as well as on the conversations held during the negotiation of the waiver at the close of 2015, new waivers will be obtained in the course of 2016. Be this as it may, exemption from compliance with the covenants at 31 December 2015, as well as the expectation not only of new waivers but also of the availability of sufficient liquidity, as detailed in Note 3.1.c), allows the Group to classify the debt with BEI as long term, given that there is are no foreseen problems of liquidity or of ongoing concern status under the current and estimated conditions.

- Management considers that the Group has de facto control over certain companies detailed in Note 1 of which it owns a 50% shareholding. The Group is the main shareholder of these companies and there is no record of other shareholders which form a group and exercise their vote collectively. The number of directors representing the Group in the Board of Directors of such companies forms a majority. The Group controls an entity when it is exposed, or has the right, to obtain variable revenue from its involvement in the company and has the capacity to exercise its power thereon to include such revenue. In this regard, the Group has appointed the members of top management of these companies, who in turn are responsible for the companies' operating and financing activities, establishment of budgets, research activities on new products or developments, etc.

- Control over Tubos Reunidos Premium Threads, S.L. (TRPT). The Group holds a 51% investment in the subsidiary Tubos Reunidos Premium Threads, S.L. (TRPT) which has been consolidated under the full consolidation method given that it is considered that control is held over such subsidiary. In this regard, aspects have been analysed such as shareholder agreement, relevant activity of the company, management and exposure to the existing business, plant management and the costs thereof and others, which have led to the conclusion that control is in the hands of Grupo Tubos Reunidos.

- Estimation of scrap density in physical inventory in the process of volume measurement. At the end of the financial year, physical inventory of the scrap is taken to estimate the amount of tons. This process is carried out by means of volume measurement of the scrap in the plant. Even if the tonnage calculation depends on the density of the scrap considered in the volume measurement, during the financial year adjustments are carried out (when stock is zero or practically zero), while also during the year there are follow-ups based on new purchases which allow more adequate measurement and ensure greater reliability regarding the density to be taken into account in the volume measurement and calculation of tons in stock.

- Estimation of related provisions in order to deal with claims and probable liabilities, certain legal actions underway or obligations deriving from the activity of the Group, Notes 2.21 and 21.

5. Financial information by segments

The Board of Directors and Executive Committee are identified as the top decision-making bodies of the Group. These bodies revise the internal financial information of the Group in order to value performance and assign resources to the segments.

Management has determined the business segments based on the structure of the reports examined by the above management bodies.

Such management bodies analyse Group business both in terms of geography and of products. Thus, operations are analysed from the perspective of three basic types or families of products:

a) Seamless tubes
b) Distribution
c) Automotive (non-core business)

Additionally, the management bodies analyse under the Other operations item, the remaining activities/products (mainly, the manufacture of pressure components for boilers and isometrics).

Even if these operations do not pass the quantitative threshold determined by IFRS 8 to be considered a business segment, they are presented as an additional segment as this is how they are analysed by the management bodies.

(Thousands of euros)

These management bodies value the performance of the business segments based mainly on earnings before interest, taxes, depreciation and amortisation (EBITDA). This valuation method does not include the effects of non-recurrent expenses or of unrepresentative one-off operations. The segmented information received by these bodies also includes financial income and expenses and tax considerations, although the latter are analysed collectively at Group level.

a) Segmented information

Income by segment for the financial year ended on 31 December 2015, was the following:

	Seamless tubes	Distribution	Automotive	Others	Group
Total gross sales of the segment	304,353	30,626	64,440	-	399,419
Inter-segment sales	(36,371)	(2,322)	(8,248)	-	(46,941)
Sales	267,982	28,304	56,192	-	352,478
EBITDA	6,683	(1,464)	6,619	24	11,862
Operating profit	(16,836)	(2,136)	2,583	24	(16,365)
Net financial costs	(5,740)	(261)	366	-	(5,635)
Profit before taxes	(22,576)	(2,397)	2,949	24	(22,000)
Tax on profit	7,539	-	(751)	-	6,788
Minority interests	123	-	(1,099)	-	(976)
Profit of the FY	(14,914)	(2,397)	1,099	24	(16,188)

Income by segment for the financial year ended on 31 December 2014, was the following:

	Seamless tubes	Distribution	Automotive	Others	Group
Total gross sales of the segment	396,510	31,500	62,146	-	490,156
Inter-segment sales	(68,624)	(1,647)	(11,933)	-	(82,204)
Sales	327,886	29,853	50,213	-	407,952
EBITDA	36,705	261	4,387	20	4,387
Operating profit	14,684	(445)	753	20	15,012
Net financial costs	(8,889)	(258)	336	-	(8,811)
Share in results of associates	(16)	-	-	-	(16)
Profit before taxes	5,779	(703)	1,089	20	6,185
Tax on profit	1,242	369	345	-	1,266
Minority interests	-	-	(372)	-	(372)
Profit of the FY	7,021	(334)	372	20	7,079

(Thousands of euros)

Other segment items included in the profit and loss account are the following:

	2015				2014			
	Seamless tubes	Distribution	Automotive	Group	Seamless tubes	Distribution	Automotive	Group
Depreciation of material fixed assets (Note 6)	20,774	375	3,512	24,661	20,046	402	3,159	23,607
Depreciation of intangible assets (Note 7)	2,733	297	524	3,554	1,963	304	475	2,742
Amortisation of real-estate investments	12	-	-	12	12	-	-	12
(Net) Provision/(Reversal) for impairment of stock (Note 11)	(1,914)	(237)	-	(2,151)	(37)	(1,380)	-	(1,417)
(Net) loss for impairment of trade receivables and commercial guarantees (Notes 10, 21 and 25)	1,556	(662)	(5)	889	1,809	(1,339)	(146)	324

Transactions between segments are conducted under the commercial terms and conditions of the market.

The assets and liabilities of the segments at 31 December 2015, and investments in fixed assets during the financial year ended on such date are the following:

	Seamless tubes	Distribution	Automotive	Others	(*) Consolidation adjustments	Group
Assets	667,759	40,309	64,953	166	(134,492)	638,695
Assets held for sale	3,120	-	-	-	-	3,120
Total assets	670,879	40,309	64,953	166	(134,492)	641,815
Liabilities	468,458	22,339	40,085	-	(133,242)	397,640
Investments in fixed assets (Notes 6 and 7)	32.674	57	4,660	-	-	37,391

(*) These consolidation adjustments correspond, basically, to balancing out of loans and trade balances between companies of the Group.

(Thousands of euros)

The assets and liabilities of the segments at 31 December 2014, and investments in fixed assets during the financial year ended on such date are the following:

	Seamless tubes	Distribution	Automotive	Others	(*) Consolidation adjustments	Group
Assets	688,651	41,164	63,085	142	(135,489)	657,553
Associates	31	-	-	-	-	31
Assets held for sale	4,599	-	-	-	-	4,599
Total assets	693,281	41,164	63,085	142	(135,489)	662,183
Liabilities	449,060	17,483	40,080	-	(105,376)	401,247
Investments in fixed assets (Notes 6 and 7)	27,921	102	4,750	-	-	32,773

(*) These consolidation adjustments correspond, basically, to balancing out of loans and trade balances between companies of the Group.

The information provided in this Note shows all assets (except investments in subsidiaries eliminated through consolidation) and liabilities of each of the segments in compliance with the balance sheets of each of the Group companies included in the segment.

b) Information on geographical areas and customers

The 4 business segments of the Group operate mainly in three geographical areas, although they are managed on a worldwide basis.

Spain is the country of origin of the Company, and is, in turn, the home country of the main operating companies of the Group.

Group sales, according to country where the customer is located, are made mainly in the following markets:

	2015	2014
Sales		
Spain	67,420	68,816
Rest of the European Union	101,662	110,510
Rest of the world	183,396	228,626
Total sales	352,478	407,952

(Thousands of euros)

Group assets are found in the following countries:

	2015	2014
TOTAL ASSETS		
Spain	591,246	610,954
Rest of the European Union	-	-
Rest of the world	50,569	51,229
Total assets	641,815	662,183

Investments in associates (Note 8) were included in the Spain segment in FY 2014.

Practically all investments in material assets and other intangible assets have been made in plants located in Spain (Note 1).

Under no circumstances does the ordinary income from a customer exceed 10% of total ordinary income of the Group.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2015
(Thousands of euros)

6. Property, plant and equipment

The detail and changes in the different categories of material fixed assets are shown in the table below:

2015 Financial Year

	Land and buildings	Technical installations and machinery	Other installations, tools and furniture	Under construction and advances	Other fixed assets	Total
COST						
Opening balance	188,283	577,935	29,280	3,528	21,773	820,799
Acquisitions	880	13,939	4,007	12,124	1,940	32,890
Write-offs	(2,261)	(694)	(1,567)	(384)	(296)	(5,002)
Transfers (Note 11)	-	1,679	13	(1,721)	4,005	3,976
Conversion differences	-	820	32	-	(8)	844
Final balance	186,902	593,679	31,765	13,547	27,414	853,307
DEPRECIATION						
Opening balance	53,033	382,760	8,473	-	16,758	463,024
Provisions	2,264	21,359	693	-	345	24,661
Write-offs	(683)	(477)	(55)	-	-	(1,215)
Transfers	-	-	-	-	-	-
Conversion differences	-	240	8	-	(3)	245
Final balance	56,614	403,882	9,119	-	17,100	486,715
PROVISIONS						
Opening balance	-	600	-	-	-	600
Write-offs	-	(100)	-	-	-	(100)
Final balance	-	500	-	-	-	500
NET VALUE						
Opening balance	133,250	194,575	20,807	3,528	5,015	357,175
Final balance	130,288	189,297	22,646	13,547	10,314	366,092

(Thousands of euros)

2014 Financial Year

	Land and buildings	Technical installations and machinery	Other installations, tools and furniture	Under construction and advances	Other fixed assets	Total
COST						
Opening balance	184,934	549,016	26,867	13,962	20,736	795,515
Acquisitions	3,349	15,495	3,754	3,509	1,156	27,263
Write-offs	-	(198)	(1,467)	(175)	(139)	(1,979)
Transfers	-	13,622	126	(13,768)	20	-
Final balance	188,283	577,935	29,280	3,528	21,773	820,799
DEPRECIATION						
Opening balance	52,768	362,684	7,890	-	16,263	439,605
Provisions	2,265	20,252	583	-	507	23,607
Write-offs	-	(176)	-	-	(12)	(188)
Transfers	-	-	-	-	-	-
Final balance	55,033	382,760	8,473	-	16,758	463,024
PROVISIONS						
Opening balance	-	706	-	-	-	706
Write-offs	-	(106)	-	-	-	(106)
Final balance	-	600	-	-	-	600
NET VALUE						
Opening balance	132,166	185,626	18,977	13,962	4,473	355,204
Final balance	133,250	194,575	20,807	3,528	5,015	357,175

During FY 2015, the Group conducted a detailed analysis of the spare parts in its warehouses and transferred to the material fixed assets item an amount of 3.9 million euros in spare parts for assets which were previously registered in the stock item, given that the estimated storage cycle thereof is over one year.

The additions to fixed assets in 2015 refer to the investments foreseen in the Group's strategic plan, addressing the development and extension of the range of special tubes, and technologically advanced and more competitive production processes. In Tubos Reunidos Industrial in 2015, investments were made in the treatment of Premium tubes and the development of know-how for launching new products. In Productos Tubulares, the main investments addressed optimisation of production capacity for large diameters in special high alloy and stainless steels. Moreover, Tubos Reunidos Premium Threads (TRPT) has made investments in regard to the assembly lines, cranes and machinery required for start-up of production by the Company during the 2016 financial year.

In regard to investments made in 2014 by Tubos Reunidos Industrial (TRI), in addition to technological development of the new degassing and thermal treatment installations, there was an adjustment of the drill to the growing range of products on offer, as well as a new magnetic particle installation for the inspection of ends in order to increase production capacity of Premium OCTG. Productos Tubulares (PT) has continued to invest in adjusting the production process for a wider range of large diameter tubes in special high alloy and stainless steels.

a) Updates

On 31 December 1996, some Group companies proceeded to update material fixed assets to such date, in compliance with the corresponding legal regulations (Regional Norm 4/1997 of 7th February, Regional Norm 6/1996 of 21 November and Royal Decree 2607/1996 of 20 December) with a net effect of 13.7 million euros, including assets classified as held for sale. Since 31 December, 2008, this update is totally amortised.

b) Material fixed assets affected by guarantees

On 31 December 2014, various material fixed asset items were affected by guarantees on loan operations and deferment of institutional payments in the amount of 397,000 euros. The outstanding amount of the guaranteed debt at 31 December, 2014, totalled 410,000 euros. There are no material fixed assets affected by guarantees at 31 December 2015.

c) Insurance

The Group engages insurance policies to cover the risks affecting the fixed asset items.

The coverage of these policies is considered sufficient.

d) Impairment losses

At the beginning of 2015, the share of Tubos Reunidos was listed at 1.70 euros, without large fluctuations until June 2015, when it began to drop. At 31 December 2015, the price was 0.585 euros per share (Note 14).

In compliance with IAS 36, the Group's Management has prepared the statutory analysis on asset impairment. In order to conduct such analysis, the 2015 business plan has been revised in order to adjust it to current market conditions and include updated assumptions. In drawing up the plan, the following main aspects have been taken into consideration:

- Forecasts for 2016 that are similar to the actual figures for 2015.

- Investments made in the 2012/2015 period for diversification of products, increase in added value and improvement in competitiveness.

- Investments in the new tube finishing plant (TRPT).

- Current customer and market structure, as well as penetration in new markets and products based on investments made and the applied commercial strategies.

- Cost optimisation and containment plan.

- Business trends in view of the current macroeconomic scenario, adapted to the operating environment of each analysed CGU.

The different assumptions made (expected growth, use of installed production capacity, prices, variations in working capital...) are extrapolated bearing in mind past data as well as the objectives established by Group Management.

In a scenario where economic cycles are increasingly difficult to anticipate and bearing in mind that visibility has gradually decreased in recent years, the forecasts reflect the best estimates of Management using conservative criteria. In this regard, the key relevant assumptions in the forecasts are the trend in tonnage, trend in sales prices, improvement in mark-ups, trend in raw material prices, estimated growth of GNP, expectations regarding oil price trends and planned investments in the OCTG business. These assumptions are extrapolated using conservative criteria.

This analysis has been prepared for each of the CGUs in the seamless tube business of the Group; that is, for Tubos Reunidos Industrial and Productos Tubulares. The projections drawn up by Management in both cases cover a period of 10 years.

<u>Tubos Reunidos Industrial</u>

Commencing with a minimum level situation in 2015, a gradual recovery is forecast in produced tons, as a consequence of the start up of the new TRPT Premium tube finishing plant, the foreseeable completion of destocking of OCTG tubes in the U.S.A., international petrol price forecasts, estimation of active rigs and the consumption of OCTG tubes per rig. As from 2019, there will be a return to a situation which is more befitting to past data and a moderate average growth of 1% is estimated in delivered tons.

With respect to net turnover, the Group's Management forecasts an average growth between 4% and 9% stemming from the above increase in tons and a slight recovery in prices starting in 2017, with an average growth of tons sold of between 4% and 9%. There is no forecast increase in market share, which is expected to remain steady under the key assumptions mentioned above.

In regard to production costs, certain cost containment efforts are being carried out, pursuing efficiency and savings, so that the forecast levels show the most objective and quantifiable data on costs without foreseeing a significant reduction. In this regard, Management forecasts moderate increases in EBITDA on sales throughout the plan, obtaining an average increase in annual EBITDA of between 16% and 21% from FY 2017 onward.

Cash flows beyond the ten-year period are extrapolated using an estimated perpetuity growth rate of 1%. The discount rate used was 7.7% after taxes.

Considering these conditions, the current value of expected cash flows exceeds net value of assets of the CGU between 75% and 85% of the value thereof.

Furthermore, a sensitivity analysis of the business plan has been carried out, bearing in mind the most conservative scenario possible, with minimum forecasts and very low growth (average growth in tons sold of between 2% and 5%, increase in turnover between 3% and 6% and an average annual increase in EBITDA between 18% and 21% as from the 2017 financial year). Maintaining WACC at 7.7%, the current value of expected cash flows exceeds net value of assets of the CGU by between 25% and 35% of the value thereof. A WACC of 9.1% is needed to equal the current value of estimated cash flows to the value of net assets to be recovered.

Based on the current value of cash flows obtained, significantly higher than the book value of the assets both in the original assumptions and in the sensitivity analysis conducted, Group Management has not recognised any value impairment.

Productos Tubulares

Average growth of turnover forecast throughout the plan is based on an increase in tons sold of between 2% and 7% as from the 2017 financial year. During the 2017 financial year, the Company foresees sales levels that are similar to the average of the 2008-2015 period, and as from that year, forecast average growth in turnover is between 3% and 8%, slightly higher than the increase in terms of tons. There is no forecast of increase in market share.

In regard to production costs, the improvements deriving from the cost optimisation and containment plan have been considered, as well as the increase in production efficiency. The forecast is to reach a level of gross margin similar to that of the average for the 2008-2014 period, and to obtain an average increase in annual EBITDA of between 6% and 11% from FY 2017 onward.

Cash flows beyond the ten-year period are extrapolated using an estimated perpetuity growth rate of 1%. The discount rate used was 7.7% after taxes.

Considering these conditions, the current value of expected cash flows exceeds the net value of assets of the CGUs by between 45% and 55% of the value thereof.

Furthermore, a sensitivity analysis of the business plan has been carried out, bearing in mind the most conservative scenario possible, with minimum forecasts and very small growth (average growth in tons sold and turnover as from 2017 of between 1% and 4%, and between 3% and 6%, respectively, and obtaining an average annual increase in EBITDA of between 5% and 8% as from the 2017 financial year). Maintaining WACC at 7.7%, the current value of expected cash flows exceeds net value of assets to be recovered by between 20% and 30% of the value thereof. In this minimum level scenario, a WACC of 9% is needed to equal the current value of estimated cash flows to the value of net assets to be recovered.

Based on the current value of cash flows obtained, which is higher than the book value of the assets, both in the original assumptions and in the sensitivity analysis conducted, Group Management has not recognised any value impairment.

Distribution segment

Similarly, the Group has calculated the redeemable amount of the distribution segment, taking into consideration its value in use. The assumptions made in the impairment test conducted by the Group are the following:

- A projection has been made of 10 years (5 years in FY 2014), calculating the residual value as a perpetuity of a financial period without cyclical or seasonal information. In FY 2015, Management deemed adequate to make a 10 year forecast as the negative situation of the current economic cycle means that the first years of the forecast do not correspond to a normal market situation.

- The discount rate used (WACC) was 7.25% after taxes (7.5% in FY 2014).
- The actual growth rate of the terminal value is 1% over the long term inflation rate of the International Monetary Fund (1% in FY 2014).

For the cash generating unit, the most important parameters are:

- Net turnover: increase in the domestic market share and international expansion based on major engineering projects and agreements with local partners (average annual increase in the years of the forecast of 10% in sales) (2014, average increase of 21% in the 5 years of the forecast).
- Gross margins: Management has determined the budgeted gross margin based on past revenue and market development expectations. The forecast gross margins remain in line with past margins of the segment.
- Investments in fixed assets: no investments are foreseen in the years of the forecast, except in the last year, in which an investment similar to current amortisation is taken into consideration (2014, same forecast).

There is no evidence of impairment from the analysis conducted.

Management has conducted a sensitivity analysis of the plan, reducing the results by 10% and 5%, evidencing a net impairment of 2 and 1.2 million euros, respectively. Management also conducts an additional sensitivity analysis increasing the WACC discount rate by 10% and in 5%, evidencing in these scenarios a net impairment of 2.6 and 1.5 million euros, respectively.

Moreover, the Group regularly engages independent experts to assess the industrial units involved in the distribution segment (valuation of the plants of 20 million euros at 31 December 2015, and of 21 million euros at 31 December 2014). During FY 2014, valuation companies Aguirre & Newman and TINSA assessed 97% of the total amount of industrial units involved in the segment and did not evidence impairment losses in such industrial units.

During FY 2015, Management conducted a sensitivity analysis of these valuations, requiring a reduction in market prices of around 15% with respect to 2014 and showing a net impairment of 1.4 million euros in the case of a fall in market prices in the aforementioned percentage with respect to the valuations made in 2014.

As a consequence of the analyses conducted using both methods, both for estimated cash flows and for the valuation of the industrial units of the distribution segment, and given that there is no evidence of relevant impairment figures (as indicated in foregoing paragraphs), Management has decided not to register any impairment loss.

(Thousands of euros)

e) Leaseholds

Financial leases

The machinery item includes the following amounts where the Group is lessee under financial leasehold:

	2015	2014
Cost of capitalised financial leases	2,633	2,633
Accrued depreciation	(1,770)	(1,388)
Net book value	863	1,245

The amounts payable of these financial leases are registered in Payables (current and non-current) (Note 18).

Operating leases

The profit and loss account includes leasehold expenses in the amount of 1,489,000 euros (2014: 1,304,000 euros) basically corresponding to property rental.

During the 2010 financial year, the Group signed the sale of premises and, simultaneously, signed an operating leasehold contract with the buyer on such premises for a statutory period of 10 years, during which the rent (established initially at 39,000 euros per month, approximately) is updated bearing in mind the percentage variation in Spain of the Consumer Price Index (CPI).

The leasehold contract includes a purchase option enforceable by the Company, at the market price established by an independent expert the moment the purchase option matures.

The Group has the right to non-extension of the rentals over and beyond the minimum statutory period. Furthermore, the buyer was not granted any guarantee against possible losses deriving from the early termination of the contract, or against possible fluctuations in the residual value of such premises.

On conducting said transaction, the commercial life of the sold premises is considered to be over 30 years in all cases. Moreover, the sales price of the premises, as well as the subsequent rent agreed, were established in compliance with fair market values at such date. The percentage represented by the actual value in the 2010 financial year of the minimum leasehold payments over the fair value of the rented premises at date of signature of the operation was 73%.

Additionally, during FY 2014, a company of the Group signed an operating lease contract of the land and the industrial unit in which its production activity takes place. The leasehold is signed for a period of 25 years, which can be extended by 5-year periods (the initial statutory term being 4 years). The term of 25 years counts as from 15 December 2015, date on which the industrial unit was delivered.

The lessee, as from the fourth year, may terminate the contract unilaterally with the sole condition of giving eight months' advance notice.

The percentage represented by the actual value in FY 2014 of the minimum leasehold payments over the fair value of the rented premises at the date of signature of the operation was 73%.

The agreed rent is updated each year that the contract is in effect by the percentage variation of the CPI in the prior 12 months.

Committed payments at 31 December 2015 and 2014 for the above-mentioned contracts are as follows:

	Thousands of euros	
	2015	**2014**
Less than one year	851	503
Between one and five years	3,056	2,014
More than five years	-	168
	3,907	2,685

(Thousands of euros)

7. Intangible assets

The detail and changes in the main categories of intangible assets, broken down by those generated internally and other intangible assets, are shown below:

2015 Financial Year

	Emission rights	Software	Research expenses	Patents, Licences	Customer portfolio	Total
COST						
Opening balance	572	7,392	14,345	834	463	23,606
Additions	647	386	3,337	131	-	4,501
Write-offs	(392)	(4)	-	(44)	-	(440)
Transfers	-	10	-	-	(10)	-
Conversion differences	-	19	218	-	-	237
Final balance	827	7,803	17,900	921	453	27,904
DEPRECIATION						
Opening balance	-	4,722	3,740	670	453	9,585
Provisions	-	652	2,858	44	-	3,554
Write-offs	-	-	-	(13)	-	(13)
Conversion differences	-	6	98	-	-	104
Final balance	-	5,380	6,696	701	453	13,230
NET VALUE						
Opening balance	572	2,670	10,605	164	10	14,021
Final balance	827	2,423	11,204	220	-	14,674

2014 Financial Year

	Emission rights	Software	Research expenses	Patents, Licences	Customer portfolio	Total
COST						
Opening balance	143	6,984	10,082	801	453	18,463
Additions	796	408	4,263	33	10	5,510
Write-offs	(367)	-	-	-	-	(367)
Final balance	572	7,392	14,345	834	463	23,606
DEPRECIATION						
Opening balance	-	4,038	1,732	620	453	6,843
Provisions	-	684	2,008	50	-	2,742
Final balance	-	4,722	3,740	670	453	9,585
NET VALUE						
Opening balance	143	2,946	8,350	181	-	11,620
Final balance	572	2,670	10,605	164	10	14,021

Development expenses begin to depreciate the moment in which the tubes begin to be produced using the new developments. At 31 December 2015, all the projects are underway, except for a project with a total amount of 1.1 million euros which will begin in 2017. Depreciation is applied using the straight line method over a period of 5 years. All the projects have estimated profit and no impairment has been detected.

The Strategic Plan of the Group contemplates a series of investments in order to be able to manufacture very special Premium Products with greater added value. The Group's Development projects underway in the seamless tube segment pursue greater dimensions, new finishes and steel which was not hitherto produced by the Group and which will permit the Group to compete in markets that are now inaccessible.

Additionally, the Group is carrying out projects for the manufacture of new automotive parts.

The net book value of development expenses at 31 December 2015, in relation to seamless tube projects, totalled 10 million euros (9.4 million euros at 31 December 2014). The remainder of the assets, which total 1.2 million euros, involve the project for manufacturing automotive parts (1.2 million euros at 31 December 2014).

As indicated in Note 2.8.c), development costs are depreciated from the beginning of commercial production of the product using the straight line method during the period in which it is expected to generate profit, without exceeding 5 years. The profit generated per year by these projects exceed the depreciation thereof.

(Thousands of euros)

8. Analysis of financial instruments

8.1 Analysis by categories

The book value of each of the categories of financial instruments established in the registration and assessment rules for “Financial instruments” is the following:

	2015			
	Credit and other	**Available for sale**	**Assets at fair value through profit or loss**	**Total**
Non-current financial assets:				
- Other receivables	150	-	-	150
	150	**-**	**-**	**150**
Current financial assets				
- Derivatives (Note 9)	-	-	24	24
- Loans and accounts receivable				
- Short-term financial investments	5,392	-	-	5,392
- Trade and other accounts receivable (Note 10) (*)	40,611	-	-	40,611
- Cash and equivalents (Note 12)	26,955	-	-	26,955
	72,958	-	24	**72,982**

	2014			
	Credit and other	**Available for sale**	**Assets at fair value through profit or loss**	**Total**
Non-current financial assets:				
- Holdings under the equity method	-	31	-	31
- Other receivables	186	-	-	186
	186	**31**	-	**217**
Current financial assets				
- Loans and accounts receivable				
- Short-term financial investments	6,171			6,171
- Trade and other accounts receivable (Note 10) (*)	68,907	-	-	68,907
- Cash and equivalents (Note 12)	18,293	-	-	18,293
	93,371	-	-	**93,371**

(*) Does not include receivable balances from Public Administration in the amount of 5,199 thousand euros (5,700 thousand euros at 31st December, 2014)

(Thousands of euros)

Both long-term and short-term financial investments basically include term deposits and transfers of fixed yield securities. The average return during FY 2015 of these investments was 2.23% (2014, 2.95%).

Maximum exposure to credit risk on the date of presentation of financial assets is the book value thereof.

	2015			2014		
	Hedging derivatives	Other financial liabilities at amortised cost	Total	Hedging derivatives	Other financial liabilities at amortised cost	Total
Non-current financial liabilities:						
- Loans received (Note 19)	-	161,240	161,240	-	155,640	155,640
- Financial leasehold liabilities (Note 18)	-	158	158	-	571	571
- Derivatives (Note 9)	54	-	54	-	-	-
- Trade and other accounts payable (Note 18)	-	40,342	40,342	-	29.496	29,496
	54	**201,740**	**201,794**	**-**	**185,707**	**185,707**

	2015			2014		
	Liabilities at fair value through profit or loss:	Other financial liabilities at amortised cost	Total	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Current financial liabilities:						
- Loans received (Note 19)	-	42,146	42,146	-	40,436	40,436
- Financial leasehold liabilities (Note 18)	-	413	413	-	525	525
- Derivatives (Note 9)	114	-	114	2,715	-	2,715
- Trade and other accounts payable (Note 18) (**)	-	103.391	103,391	-	121,094	121,094
	114	**145,950**	**146,064**	**2,715**	**162,055**	**164,770**

(**) Does not include payable balances with Public Administration in the amount of 4,571,000 euros (4,923,000 euros at 31 December 2014).

(Thousands of euros)

8.2. Credit rating of financial assets

Financial assets correspond mainly to deposits and issues conducted by Spanish financial entities of the first order whose assets are deposited in leading domestic and international entities. These assets have not suffered impairment losses in the 2015 and 2014 financial years.

The credit rating of the remaining financial assets, mainly customers, is detailed in Notes 3.1.b) and 10.

9. Derivatives

This section includes exchange rate insurance contracts in transactions in currency and the engaged interest rate swaps:

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward contracts in foreign currency	24	114	-	2,715
Interest rate swaps contracts - cash flow hedging	-	54	-	-
	24	168	-	2,715

At 31 December 2015, there were foreign currency forward contracts for conducted or highly likely operations in the total amount of 36.6 million dollars (USD), 0.1 million pounds sterling (GBP) and 0.3 million Australian dollars (AUD) (2014, 77.3 million dollars (USD), 0.7 million pounds sterling (GBP), 0.4 million Australian dollars (AUD) and 0.2 million Canadian dollars), whose expiry in all cases is in 2016 (for operations in effect at 31 December 2014, all of them expired in FY 2015). These contracts are accounted as held for trade with gains (losses) recognised in the profit and loss account.

Furthermore, during FY 2015, the Group began to engage interest rate swap contracts. The amount of the notional principal of the interest rate swap contracts (from variable to fixed) outstanding at 31 December 2015, totals 9.7 million euros. These swaps are classified as hedging instruments. At 31 December 2015, the fixed interest rate of these swaps is in the region of 0.18% and the reference variable interest rate is 3 month Euribor.

(Thousands of euros)

10. Trade and other accounts receivable

	2015	2014
Customers	40,655	70,525
Minus: Impairment of receivables	(1,070)	(2,035)
Customers – Net	39,585	68,490
Other receivables (personnel and other debts)	1,026	417
Total	40,611	68,907

Receivables are shown at nominal values, which do not differ from their fair values based on their cash flows discounted at market rates.

There is no concentration of credit risk with respect to trade accounts receivable as the Group has a large number of customers distributed around the world (Note 5).

In addition to the factoring without recourse operations described in Note 3.1.b), at 31 December 2015, the amount of the balance of customers and receivables discounted in financial entities totals 2,876,000 euros (2014, 1,724,000 euros), having registered the transaction as bank loan (Note 19).

The Group manages credit risk by means of risk rating of each of its customers and through collection insurance of the amounts invoiced through CESCE, in compliance with the coverage criteria and percentages indicated in Note 3.1.b).

The balances which have exceeded the nominal due date and which are within the normal terms of collection systems established with the various customers, which oscillate between 30 and 120 days, are not considered overdue receivables. At 31 December 2015, there were no balances which had exceeded the established collection agreements or the normal terms of payment, and which were not considered in the corresponding impairment analysis.

Customer accounts which are not subject to impairment losses correspond to independent customers for which there is no recent record of defaulting. All these customer balances have a due date of under twelve months (2014, under twelve months).

At 31 December 2015, all receivables, whether overdue or not, whose recoverability could be considered doubtful on such dates, were impaired. The value impairment was carried out by means of estimation of the reasonable loss corresponding to each customer minus the amounts whose collection is guaranteed through the Insurance Companies.

The changes in value impairment of the 2015 and 2014 financial years correspond to the following amounts and items:

	Total
At 31 December 2013	**5,149**
Provisions/(Reversals) (Note 25)	(1,401)
Appropriation	(1,713)
At 31 December, 2014	**2,035**
Provisions/(Reversals) (Note 25)	(688)
Appropriation	(277)
At 31 December, 2015	**1,070**

The receivables that suffered impairment loss correspond mainly to balances with specific collection problems, identified individually. Based on the collection procedures underway, a high (although as yet undetermined) percentage of such receivables is expected to be recovered. The remaining accounts included in the receivables do not contain assets which have suffered impairment.

The credit rating of the customer balances which have not suffered impairment losses can be classified as satisfactory, as in practically all of the cases they are risks accepted and covered by credit risk insurance companies and/or banks and financial entities.

The maximum exposure to credit risk on the date of presentation of the information is in all cases the fair value of each of the categories of receivables indicated above, considering the aforementioned credit insurance coverage.

The book value of Group receivables in foreign currency is denominated in the following currency (excluding balances in euros):

	Thousands of euros	
	2015	**2014**
US Dollar	18,283	37,931
Pounds Sterling	157	835
Chinese Yuan	3,657	2,921
Other currencies	438	1,053
	22,535	42,740

(Thousands of euros)

The age of overdue balances held by the company at 31 December, 2015 and 2014, without considering those that are impaired, is the following:

	2015	2014
Non-outstanding balances	32,390	58,468
Balances overdue up to 3 months	7,863	11,606
Balances overdue from 3 to 6 months	402	451
	40,655	70,525

The age of the provision for insolvencies held by the company at 31 December 2015 and 2014, for ongoing activities is the following:

	2015	2014
Provision for balances overdue up to 3 months	20	1,356
Provision for balances overdue for more than 3 months	1,050	679
	1,070	2,035

11. Inventories

	2015	2014
Raw materials and other supplies	34,764	47,539
Unfinished products	24,912	35,146
Finished products	62,086	58,133
Advances to suppliers	33	56
	121,795	140,874

During FY 2015, the Group conducted a detailed analysis of the spare parts in its warehouses and transferred to material fixed assets the amount of 3.9 million euros in asset parts which were previously registered in the "Raw materials and other supplies" item (Note 6).

The cost of stock recognised as expense is broken down as follows:

	2015	2014
– Purchases	163,879	223,991
– Variations in raw materials and other supplies	8,799	(6,706)
– Variation in provisions for impairment of unfinished and finished products	(968)	(3,748)
– Variation in unfinished and finished products	7,249	(15,245)
	178,959	198,292

(Thousands of euros)

During the 2015 and 2014 financial years, there were purchases in foreign currency in the amount of 36 and 44 million euros, respectively.

The variation in impairment in stock in order to adjust their value to their realisable value during the financial periods was the following:

	Total
At 31 December 2013	**12,396**
Provisions/(Reversals)	(1,417)
Appropriation	(2,324)
At 31 December, 2014	**8,655**
Provisions/(Reversals)	(2,151)
Appropriation	(19)
At 31 December, 2015	**6,485**

The provisions held at 31 December, 2015, were estimated based on the stock turn statistics and individualised analysis of the conditions and valuation of the different items making up the Group's stock, taking into consideration the net redeemable value of the different affected stock items.

During FY 2015, and after detailed analysis of the spare parts mentioned earlier, the Group proceeded to reverse part of the provision assigned to such parts in the amount of 1.3 million euros, having considered that they continue to be of use.

During FY 2014, sales were carried out in relation to the "tertiary sector", which at 31 December 2013, had provisions in the amount of 3 million euros and which generated a net balance in the profit and loss account of FY 2014 in the positive amount of 0.7 million euros.

12. Cash and equivalents

	2015	2014
Cash and banks	26,955	18,293
	26,955	18,293

13. Non-current assets held for sale

Assets classified as held for sale correspond to real-estate investments (at the close of 2015, they correspond to 6 industrial units). These assets are shown as held for sale after the decision of the parent company's Board of Directors to sell such assets and the Group's efforts to proceed actively to their sale.

The Group values real-estate investments as the lesser between acquisition cost and the fair value less cost of sale, estimating fair value based on recent sales transactions or on studies conducted by independent experts. In this regard, during FY 2014, the Group assigned the assessment company TINSA to value the property, covering 80% of the value of these assets at 31 December 2014. During this financial year, Management re-estimated the values through market studies/research, evidencing a value impairment of 385,000 euros, which was registered in the attached profit and loss account.

The variations in the year correspond to the sale of three properties, whose value totalled 1,094,000 euros at 31 December 2014. The positive income from the sale of these properties totalled 1,031,000 euros (2014: sale of two properties with a net book value of 237,000 euros, which signified revenues of 53,000 euros).

The variations in non-current assets held for sale during the 2015 and 2014 financial years were the following:

	Total
Final balance at 31 December 2013	**4,836**
Write-off of real-estate investments	(237)
Final balance at 31 December 2014	**4,599**
Write-off of real-estate investments	(1,094)
Provision for impairment in real-estate investments	(385)
Final balance at 31 December 2015	**3,120**

14. Capital stock and issue premium

	Nº of shares (thousands)	Capital stock	Issue premium	Treasury stock	Total
Balance at 31 December 2013	174,681	17,468	387	(4,221)	13,634
Acquisition of treasury stock	-	-	-	(4,755)	(4,755)
Sale of treasury stock	-	-	-	8,186	8,186
Balance at 31 December 2014	174,681	17,468	387	(790)	17,065
Acquisition of treasury stock	-	-	-	(5,020)	(5,020)
Sale of treasury stock	-	-	-	4,784	4,784
Balance at 31 December 2015	174,681	17,468	387	(1,026)	16,829

a) Capital stock

During the 2015 and 2014 financial years, there were no variations in capital stock; therefore, the number of ordinary shares totals 174,680,888 shares with a face value of 0.1 euros per share.

The companies with a holding in the capital stock that is equal to or greater than 10% are:

	31.12.15	
Company	**Number of shares**	**Percentage of stake**
Grupo BBVA	25,975,018	14.87%
	25,975,018	14.87%

	31.12.14	
Company	**Number of shares**	**Percentage of stake**
Grupo BBVA	25,975,018	14.87%
	25,975,018	14.87%

All of the shares of the parent company are officially listed in the Bilbao and Madrid Stock Exchanges. As of 1 July 2005, they are listed in the main OPEN system of the Stock Exchange Interconnection System (SIBE). The price at 31 December 2015, was 0.585 euros per share (31 December 2014, 1.71 euros per share).

b) Share issue premium

This premium is unrestricted.

c) Treasury stock

2015 Financial Year

	Number of shares	**Amount (Thousands of euros)**
Opening balance	323,500	790
Acquisitions	4,150,464	5,020
Sales	(3,911,216)	(4,784)
Final balance	562,748	1,026

2014 Financial Year

	Number of shares	Amount (Thousands of euros)
Opening balance	2,209,796	4,221
Acquisitions	2,082,037	4,755
Sales	(3,968,333)	(8,186)
Final balance	323,500	790

Fully-owned Clima, S.A. (single-shareholder company) subscribed a liquidity agreement with Norbolsa, S.V., S.A. pursuant to conduct transactions with the Company's only ordinary shares.

On 7th May, 2015, the Shareholders' Meeting authorised the acquisition of treasury stock up to the maximum number of shares permitted by current laws, for a maximum period of 5 years.

In 2014, the financial broker conducted a sale transaction involving a block of 1,816,788 shares at the market price of 1.84 euros per share. After this operation, the securities and cash account of the Liquidity Contract engaged was reduced to 300,000 shares and 500,000 euros, respectively.

At 31st December, 2015. Clima S.A.U., the company which holds the aforementioned liquidity contract in effect, owned 562,748 shares with a value of 1,026,000 euros (2014, 323,500 shares with a value of 790,000 euros).

15. Other reserves and retained earnings

The breakdown of the “Other reserves and retained earnings” item is shown below:

	2015	2014
Other Reserves	48,924	48,924
Retained earnings	160,915	179,192
	209,839	228,116

a) Other Reserves

First-time adoption reserve

The "Other reserves" items corresponds to the effects of first adoption registered in the opening balance at 1st January, 2004, and those of the adoption of IAS 32 and 39 with effect from 1st January, 2005.

(Thousands of euros)

b) Retained earnings

b.1) Reserves of the parent company

At the close of the 2015 and 2014 financial years, the reserves (excluding issue premium) registered in the annual accounts of the Parent Company are as follows:

	2015	2014
Statutory reserve	4,099	4,099
Voluntary reserve	50,945	50,005
	55,044	54,104

Statutory reserve

The statutory reserve was provided in compliance with Article 274 of the Capital Companies Act, which established that, in all cases, an amount equal to 10% of the profit of the financial year will be assigned to this reserve until it reaches at least 20% of the capital stock.

It may not be appropriated and, if used to offset losses, if there are no other available reserves for such purposes, it must be topped up with future profit.

The statutory reserve exceeded the required legal limit at 31st December, 2015 and 2014.

Voluntary reserve

The voluntary reserve is an unrestricted reserve.

b.2) Other restricted reserves

At 31st December, 2015 and 2014, there were other restricted reserves and retained earnings which correspond to:

	2015	2014
Statutory reserve of subsidiaries and associates	10,435	9,898
Balance update reserves (in compliance with local legislation)	643	643
	11,078	10,541

The statutory reserve was provided in compliance with Article 274 of the Capital Companies Act (Note 15.b.1).

(Thousands of euros)

c) Proposal for appropriation of earnings

The proposal for appropriation of 2015 earnings of the Parent Company to be submitted the Shareholders' Meeting (based on the non-consolidated balances drawn up according to PGCA criteria) as well as the approved appropriation for 2014 is the following:

	2015	2014
Basis of distribution		
Earnings of the financial year	(2,636)	2,949
Appropriation		
Reserves	-	940
Dividends	-	2,009
Negative results from earlier financial years	(2,636)	-
	(2,636)	2,949

d) Share options

There was no share option scheme in Grupo Tubos Reunidos either at the close of FY 2015 or at the close of 2014.

16. Minority interests

The variations in the minority interests account during FY 2015 and 2014 were as follows:

	2015	2014
Opening balance	15,829	10,653
Earnings of the financial year	976	372
Variations in the scope of consolidation	-	4,900
Conversion differences	301	(96)
Final balance	17,106	15,829

The distribution by companies is shown in the table below:

Company/Subgroup	2015	2014
Inauxa (Note 1)	12,080	11,398
EDAI (Note 1)	249	(469)
Tubos Reunidos Premium Threads, S.L. (Note 1)	4,777	4,900
	17,106	15,829

Tubos Reunidos Premium Threads, S.L. was incorporated in FY 2014, during which the Group subscribed and paid out 51% of the capital stock through Tubos Reunidos, S.A. The inclusion in the scope of consolidation corresponds to the 49% share of minority interests in such company.

(Thousands of euros)

17. Deferred income

The detail of the balance of this item is shown below:

	2015	2014
Tax credit for deductions on investments	13,548	11,720
Other income to be distributed in various financial years	1,546	749
	15,094	12,469

The variation in tax credit for deductions on investments was the following:

	2015	2014
Opening balance	11,720	9,617
Generated in the financial year (Note 20)	3,689	3,684
Payment into the earnings of the financial year (Note 23)	(1,861)	(1,581)
Final balance	13,548	11,720

The tax credits generated by the Group were registered and posted to earnings in compliance with the criteria described in Note 2.19.

18. Payables

a) Other non-current liabilities

This account includes the following items and amounts:

	2015	2014
Creditors for financial leasing	158	571
Suppliers of fixed assets	619	1,653
Public Administration	14,453	16,156
Other debts	25,270	11,687
Trade and other accounts payable	40,342	29,496
	40,500	30,067

The Other debts item basically includes loans from official bodies at subsidised rates in the amount of 25.3 million euros (2014, 11.6 million euros) mainly for financing research and development projects.

At the close of 2015 and 2014, the Public Administration item includes long term payable balances.

The interest rate applied during FY 2015 on financial leases is 2.80% (2014, 2.91%).

(Thousands of euros)

a.1. Leases.

Leasehold liabilities correspond to the following due dates:

	2015	**2014**
Financial leasehold liabilities, minimum leasehold payments:		
Less than 1 year	468	554
Between 1 and 2 years	178	454
Between 2 and 5 years	-	224
	646	1,232
Future financial levies for financial leases	(75)	(136)
Current value	571	1,096

The current value of liabilities for financial leasing is the following:

	2015	**2014**
Less than 1 year	413	525
Between 1 and 2 years	158	398
Between 2 and 5 years	-	173
	571	1,096

The amounts at less than one year are shown in the “Suppliers and other accounts payable” item.

The summary of financial leasehold contract terms in effect at the close of the 2015 and 2014 financial years is shown in the following table:

FY 2015

Item	**Duration**	**Cost**	**Purchase option value**	**Instalments paid (1)**
Machinery	5 years	2,633	47	2,061
		2,633	47	2,061

(1) Includes the financial levy settled in each instalment.

FY 2014

Item	**Duration**	**Cost**	**Purchase option value**	**Instalments paid (1)**
Machinery	5 years	2,633	47	1,539
		2,633	47	1,539

(1) Includes the financial levy settled in each instalment.

(Thousands of euros)

These contracts do not require specific guarantees other than the solvency of the Company/Group.

a.2) Other non-current liabilities

Other non-current liabilities are shown in the following maturity schedule:

	2015	2014
Between 1 and 2 years	5,689	6,114
Between 2 and 5 years	18,834	12,456
More than 5 years	15,819	10,926
	40,342	29,496

b) Trade and other accounts payable

This account includes the following items and amounts:

	2015	2014
Creditors for financial leasing	413	525
Suppliers	75,341	94,597
Remuneration pending payment	3,855	6,204
Other debts	7,735	6,415
Suppliers of fixed assets	16,460	13,878
Trade and other accounts payable	103,391	121,094
	103,804	121,619

The "Other debts" item mainly includes balances with the Public Administration in the amount of 2.6 million euros (2 million euros at 31 December 2014), advances to customers in the amount of 3 million euros (2.2 million euros at 31 December 2014) and the short term portion of loans from official bodies at subsidised rates in the amount of 1.9 million euros (1.8 million euros at 31 December 2014).

The fair value (updated cash flows) of these liabilities does not differ from their nominal book value.

At 31 December 2015 and 2014, the “Remunerations pending payment” item mainly registers the payroll for the month of December, variable remunerations accrued in the financial year, as well as other wages and salaries established through the collective bargaining agreement.

Information on deferred payments to suppliers. Additional provision number three. “Disclosure obligation” of Law 15/2010, of 5 July”

The information regarding the average payment period to suppliers in trade transactions of FY 2015, in compliance with the obligations established by Law 15/2010, of 5 July, is the following:

	2015
	Days
Average period of payment to suppliers	75
Ratio of paid transactions	76
Ratio of transactions pending payment	70
	Thousands of euros
Total payments made	195,198
Total pending payments	38,585

The book amounts of Group payables in foreign currency are denominated in the following currencies:

	Thousands of euros	
	2015	**2014**
US Dollar	3,246	1,253
Chinese Yuan	2,000	745
Other currencies	17	153
	5,263	2,151

(Thousands of euros)

19. Borrowed capital

	2015	2014
Non-current		
Loans with credit institutions	142,339	155,640
Treasury bonds and other negotiable securities	14,967	-
Loans with related parties	3,934	-
	161,240	155,640
Current		
Short term portion of long term loans	36,450	32,115
Financing for imports	1,089	2,510
Drawn from credit accounts	251	2,369
Discounted bills pending maturity	2,876	1,724
Debts for interest and others	1,480	1,718
	42,146	40,436
Total other borrowed capital	203,386	196,076

Of the total borrowed capital of the Group at 31 December 2015, 12% of the debt is at fixed rate; for 5% of the debt the Group uses interest rate swaps as cash flow hedging; and the remainder of the debt is at variable rate (at 31 December 2014, the entire debt was at variable rate).

As part of the financing held by the Group, there are three loans which include compliance with certain financial ratios with established regular reviews. One of these loans was signed with BEI and two with ICO. In the case of the BEI loan, the total amount is of 45 million euros. The ICO loans, on the other hand, have an outstanding amount of 8.3 million euros.

The compliance clauses established to maintain the BEI loan under the current conditions imply the attainment of certain figures in the following ratios at consolidation level:

- Gross Debt/EBITDA ratio
- Operating earnings/financial interest ratio
- Gross Debt/Gross Debt + Net Equity ratio
- Minimum amount of Liquidity Reserve

These conditions must be met on a quarterly basis through 2016.

In regard to the ICO loans, the conditions required for Tubos Reunidos Industrial, S.L. (single-shareholder company), the borrower in both ICO contracts, are:

- EBITDA/Financial Expenses
- Net Debt/Shareholders' Equity (at individual and consolidated level)

These conditions have to be met annually at end date of each financial year.

Even if some of the BEI and ICO conditions are not met at the close of 2015, Group Management has obtained the corresponding waivers before the end of FY 2015, and are therefore exempted from compliance at 31 December 2015. Hence, the debt was classified in the long term.

In regard to 2016, the Group expects to comply with the ratio established by ICO in that financial year. Hence, the debt is classified in the long term, given the waiver obtained at the close of 2015, which the Group expects to comply in 2016.

With respect to 2016, there exists the possibility of non-compliance with some of the financial ratios established for the BEI loan. Nevertheless, based on the experience acquired with BEI, if such obligation is not met, Group Management expects to continue obtaining waivers in each period. Furthermore, Group Management has conducted a liquidity analysis for 2016, understanding that it is sufficient (see Note 3.1.c), and therefore this situation does not give rise to problems in regard to ongoing concern status. Hence, the debt has been classified as long term.

During FY 2015, the Group continued the process of reduction of debt cost started at the end of FY 2014, repaying in advance some of the loans in effect and engaging new operations at lower rates.

Additionally, at the end of FY 2015, the Parent Company of the Group issued bonds with interest of 4.95% and a face value of 15,500,000 euros. The maturity date of the bonds is 7 years from date of issue at face value. The bonds were issued slightly below their face value and are accounted at amortised cost according to actual effective interest rate.

Moreover, during FY 2015, Group company Tubos Reunidos Premium Threads, S.L. has received financing from its shareholders in the amount of 8 million euros, according to the % of shareholding in the Company. Thus, a loan is accounted in the long term, received from Marubeni-Itochu Tubulars Europe Plc in the amount of 3.9 million euros and due in 2021. This loan accrues a fixed interest rate of 3.5% payable as from 30 June 2017.

(Thousands of euros)

The average effective interest rates of the financial year were:

	%	
	2015	2014
Credits and loans with financial institutions	2.7%	3.3%
Suppliers of fixed assets	2.9%	3.3%
Financing for imports	2.2%	2.9%
Discounted bills	2.1%	3.1%

The maturity of non-current borrowed capital is the following:

	2015	2014
Between 1 and 2 years	42,765	41,919
Between 2 and 5 years	99,044	95,474
More than 5 years	19,431	18,247
	161,240	155,640

The book amount of borrowed capital of the Group is almost entirely denominated in euros.

The book amounts and fair values (based on cash flows discounted at market rates of borrowed capital) of current and non-current borrowed capital do not significantly differ as in all cases the indebted amounts accrue market interests.

The Group has the following undrawn lines of credit:

	2015	2014
Variable rate:		
– with expiry in less than one year	46,030	45,882
– with expiry of over one year	47,935	19,784
	93,965	65,666

20. Deferred tax

The breakdown of deferred tax asset balances by origin corresponds to:

	2015	2014
Temporary differences	2,147	5,021
Negative taxable income	23,020	12,994
Deductions in portion pending application and others	32,224	27,787
Total	57,391	45,802

(Thousands of euros)

The Group registers tax credits for carryover, in the future, to offset negative taxable incomes, temporary differences and deductions in taxable amount. In the case of deductions for investments, the assignment to income is accrued depending on the period in which the material fixed assets that have generated the tax credits are amortised (Notes 2.19 and 17).

Deferred tax assets on negative taxable amounts and remaining tax credits pending application are recognised to the extent that the corresponding tax profit is probable through future taxable profit.

The amounts of deferred tax assets are the following:

	2015	2014
Deferred tax assets		
- Deferred tax assets to be redeemed in more than 12 months	57,277	39,987
- Deferred tax assets to be redeemed in 12 months	114	5,815
	57,391	45,802

The variations in deferred tax assets during the 2015 and 2014 financial years are shown below:

Deferred tax assets	Temporary differences	Negative taxable income	Deductions pending application	Total
At 31 December 2013	6,903	10,032	22,323	39,258
Generated in the financial year and prior financial years	560	2,962	-	3,522
Deductions registered as deferred income (Note 17)	-	-	3,684	3,684
Deductions registered as other income (Note 23)	-	-	1,470	1,470
Other deductions registered as tax income (Note 28)	-	-	869	869
Application/Write-off	(2,442)	-	(559)	(3,001)
At 31 December 2014	5,021	12,994	27,787	45,802
Generated in the financial year and prior financial years	37	10,126	-	10,163
Deductions registered as deferred income (Note 17)	-	-	3,689	3,689
Deductions registered as other income (Note 23)	-	-	975	975
Other deductions registered as tax income (Note 28)	-	-	233	233
Application/Write-off	(2,911)	(100)	(460)	(3,471)
At 31 December 2015	2,147	23,020	32,224	57,391

Temporary differences basically correspond to provisions which will be tax deductible expenses in the future.

At 31 December 2015, the Group has negative taxable balances due to losses of previous financial years in the amount of 23,132,000 euros, of which 112,000 euros are not capitalised.

(Thousands of euros)

Furthermore, the Group has deductions pending carryover at 31 December 2015, in the amount of 34,457,000 euros, of which 2,233,000 euros have not been capitalised (mainly from the automotive segment).

Deferred tax assets accounted by the Group at 31 December 2015, are distributed in the following way for the different companies/tax groups:

	Basque tax group	Automotive segment	Distribution segment	Total
Temporary differences	1,934	213	-	2,147
Negative taxable income	20,130	307	2,583	23,020
Pending deductions	29,548	2,676	-	32,224
Total	51,612	3,196	2,583	57,391

The description of the Basque tax group is detailed in Note 28. Furthermore, Inauxa (the most important company in the automotive segment) pays taxes under the local regulations of Álava, while Almesa (distribution segment) pays state taxes.

Legislation applicable for the tax periods starting on 1 January 2014, for companies under the local regulations of Álava (Basque tax group and Inauxa) establishes a statute of limitations of 15 years for deductions and generated negative taxable income, setting forth moreover that for those existing before such date, the period of 15 years counts from 1 January 2014. Therefore, the entire amount of negative taxable income and deductions of the Basque tax group and Inauxa pending carryover and generated before FY 2014 (10.3 million in negative taxable income and 29 million in deductions) expires in 2028. The amounts generated in FY 2014 (0.5 million euros in taxable income and 5.1 million euros in deductions) expire in 2029. The taxable income generated in this financial year (8.6 million euros) expires in 2030.

In the case of Almesa, under state Law 27/2014 of 27 November on Corporate Tax, negative taxable incomes do not have a statute of limitations for carryover, but do have annual quantitative limits based on applicable legislation.

The Directors of the Parent Company have conducted a recoverability analysis of the tax credits registered in the balance sheet, based on estimated taxable amounts in compliance with the business plan of the Group, considering a period of 10 years, as well as the limitations in application of such tax credits in accordance with the tax law in effect in each case.

In the case of the Basque tax group, the business plan and main assumptions thereof are included in Note 6. In compliance with this business plan, the amounts capitalised will be recovered in a period of 7 years. The plan allows reasonable justification of the payback of registered tax credits.

Additionally, the business plan used by Group Management for analysis of the recoverability of tax credits, as indicated in Note 6, was drawn up using minimum level scenarios, in which forecasts have been reduced (sensitivity analysis). In this even more conservative scenario, the amounts registered as deferred tax assets will be recovered in a period of 8 years. Therefore, having considered a significant sensitivity analysis, and taking into consideration that in this more conservative scenario, tax credits will be recovered in a period of less than 10 years, Group Management considers that the recognised asset has not suffered any value impairment.

Moreover, the Group Directors have conducted a recoverability analysis of capitalised tax credits of the distribution segment (Almesa). The main characteristics of the plan are detailed in Note 6. In compliance with the business plan, the amounts capitalised will be recovered in a period of 9 years. The plan allows reasonable justification of the payback of registered tax credits. The plan is based on the record of results of the Company and forecasts a return to the sales margins and volumes of before the economic crisis, and it calls for new investments which will permit obtaining the estimated income.

If the actual income (based on assumptions) should drop by 10% with respect to Management estimates, there would be no evidence of impairment in deferred tax assets registered at 31 December 2015 and the deferred tax assets of the distribution segment would be recovered in 10 years.

As for the case of Inauxa, the main characteristics of the business plan, used as basis for the recoverability of tax credits, are the following:

- Net turnover: average increase in coming years of 1% in sales.
- Gross margins: Management has determined the budgeted gross margin based on past revenue and market development expectations.
- Fixed asset investment plan pursuant to obtaining specialisation in products with greater added value.

In compliance with the business plan, the capitalised amounts will be recovered in a period of 7 years. The plan allows reasonable justification of the payback of registered tax credits. If the actual income (based on assumptions) should drop by 10% with respect to Management estimates, there would be no evidence of impairment in deferred tax assets registered at 31 December 2015 and the deferred tax assets of Inauxa would be recovered in 8 years.

(Thousands of euros)

The deferred tax liability balance mainly corresponds to the tax effect of revaluation of land in compliance with IFRS 1 of 1 January 2004. The variations in FY 2015 and 2014 were the following:

	Amount
Balance at 31 December 2013	**21,868**
Others	(387)
Balance at 31 December 2014	**21,481**
Regularisation of tax rate	(345)
Others	281
Balance at 31 December 2015	**21,417**

21. Provisions

Long term

	Employee downsizing plan	Provision for production activities	Others	Total
At 31 December 2013	6,027	498	8,658	15,183
Debit (credit) in profit and loss account:				
Provisioning	285	-	391	676
Reversal of provisions	(2,449)	(498)	(6,899)	(9,846)
Cancellations/payments	-	-	(163)	(163)
Transfers	(2,201)	-	(27)	(2,228)
At 31 December 2014	1,662	-	1,960	3,622
Debit (credit) in profit and loss account:				
Provisioning	-	-	911	911
Reversal of provisions	(876)	-	(215)	(1,091)
Cancellations/payments	-	-	(437)	(437)
Transfers	(68)	-	-	(68)
At 31 December 2015	718	-	2,219	2,937

(Thousands of euros)

Short term

	Employee downsizing plan	Provision of guarantees	Others	Total
At 31 December 2013	3,361	3,406	230	6,997
Debit (credit) in profit and loss account:				
Provisioning (Note 25)	-	3,232	-	3,232
Cancellations/payments	(2,548)	(1,507)	(155)	(4,210)
Transfers	2,201	-	29	2,230
At 31 December 2014	3,014	5,131	104	8,249
Debit (credit) in profit and loss account:				
Provisioning (Note 25)	124	3,507	-	3,631
Reversal of provisions (Note 25)	(96)	(1,930)	-	(2,026)
Cancellations/payments	(2,596)	(1,543)	(20)	(4,159)
Transfers	68	-	-	68
At 31 December 2015	514	5,165	84	5,763

a) The “Employee downsizing plan” item mainly shows the estimated costs for downsizing and age reduction of the workforce in compliance with the Competitiveness Plan of the Group. During this financial year, there have been re-negotiations of the agreement conditions. Therefore, based on these new conditions, the amount of workers involved in these agreements was reduced with an impact on the profit and loss account of 0.9 million euros, which have been included as lesser costs for employee benefits. The remaining provision covers all the Group's commitments in regard to the new conditions agreed in FY 2015 after re-negotiation.

Given the reduced significance of the impact on financial updating and the effect of the change in actuarial assumptions, the Group has registered these as personnel expenses in the 2015 and 2014 financial years.

The actuarial financial assumptions used in FY 2014 were the following:

	2014
Discount rate	0.30%-0.34%
Mortality rate	PERM 2000P
Increase in supplements/benefits	2%
Retirement age	65
Accrual method	UCP

The discount rate was determined based on high credit rating (AA) corporate bonds in euros, which corresponded to the duration of the benefits between 1.2 and 1.6 years (source: Bloomberg).

(Thousands of euros)

b) The "Provision of guarantees" item shows the liabilities foreseen as a consequence of the course of normal supply operations to customers, mainly provisions for coverage of expenses for guarantees on repairs, revisions and other such activities. The provisioning adequately mitigates the risks estimated by Management.

c) The "Others" item includes provisioning to cover expenses, damages or to face probable liabilities or those arising from lawsuits underway or other obligations deriving from the course of business of the Group.

In this regard, during FY 2014, the Group proceeded to reverse the amount of 6.9 million euros which was provisioned in FY 2012, corresponding to provisions relating to disciplinary action on the part of the Public Administration which was definitely closed in FY 2014, and hence the Group reversed the provision made for such purposes.

Additionally, the long term "Others" item includes expenses generated by the emission of CO_2 gases in the production process, which totalled 605,000 euros (546,000 euros in 2014), to the extent that such emissions signify the consumption of the assigned emission rights (Note 35.b).

22. Operating income

	2015	2014
Sale of goods	352,478	407,952
Total ordinary income	352,478	407,952

Practically all of the amounts in foreign currency invoiced to customers, 160 million euros, was in U.S. Dollars (217 million euros in 2014).

23. Other income

	2015	2014
Self-constructed assets	5,103	5,891
Assignment to income due to reduction in new fixed asset investments (Note 17 and Note 2.19)	1,242	1,132
Assignment to income due to reduction in R&D&i investments in intangible assets (Note 17 and Note 2.19)	619	449
Assignment to income due to reduction in R&D&i investments registered in the profit and loss account (Note 20)	975	1,470
Operating subsidies	1,010	1,500
Others	2,573	1,833
	11,522	12,275

(Thousands of euros)

During 2015, the amount of 605,000 euros has been assigned to profit and loss, corresponding to the consumed part of the emission rights (Note 2.8) (2014, 546,000 euros).

24. Employee benefit expenses

	2015	2014
Wages, salaries and similar expenses	73,610	75,177
Social contributions	23,827	24,316
Contributions and provisions for pensions	1,718	1,803
	99,155	101,296

The average number of workers of the Group by categories and of members of the Board of Directors is the following:

	2015	2014
Blue-collar workers	1,232	1,209
White-collar workers	547	533
Board Members	12	11
	1,791	1,753

At 31 December of 2015 and 2014, the breakdown of workers is the following:

	2015			2014		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Blue-collar workers	77	1,089	1,166	61	1,157	1,218
White-collar workers	166	388	554	157	380	537
Board Members	3	10	13	1	10	11
	246	1,487	1,733	219	1,547	1,766

25. Other expenses

The breakdown of this item is shown below:

	2015	2014
External services	74,329	83,711
Levies	704	577
Losses, impairment and variation of provisions for trade operations (Note 10 and Note 21)	889	324
Other current management expenses	1,790	1,642
	77,712	86,254

(Thousands of euros)

26. Other net profit/(loss)

This account includes the following items and amounts:

	2015	2014
Net revenue/(loss) of assets, assets held for sale and impairment of assets held for sale	794	355
Non-recurring income/(expenses)	232	(764)
Reversal of provisions	1,687	7,397
Profit from disposal of shares (Note 1)	975	-
	3,688	6,988

The amount corresponding to FY 2014 is mainly due to the reversal of 6.9 million euros in the provision that the Group maintained on account of disciplinary action on the part of the Public Administration, which was finally closed in FY 2014 (Note 21, included in the variation of provisions under the item "Others" in the long term).

27. Financial income and expenses

	2015	2014
Financial revenue		
– Income from holdings in capital stock and other financial income	62	234
– Net gains/(losses) for transactions in foreign currency	(1,401)	5,233
Financial expenses		
– Interest on loans/bank credit and other borrowed capital	(6,921)	(10,623)
– Share in the earnings of the financial year of associates and joint businesses accounted under the equity method	-	(16)
– Impairment and result from disposal of financial instruments	-	(8)
Variation in fair value in foreign currency derivatives which do not qualify as hedging	2,625	(3,647)
	(5,635)	(8,827)

(Thousands of euros)

28. Public Administration and tax on profit

a) Current balances with the Public Administration

The breakdown of current balances with the Public Administration is the following:

	2015		2014	
	Debtors	**Creditors**	**Debtors**	**Creditors**
Value-added tax	4,657	311	4,509	387
Income tax	-	1,629	-	1,705
Social Security bodies	37	1,915	32	2,105
Corporate tax	150	-	270	-
Others	355	716	889	726
	5,199	**4,571**	**5,700**	**4,923**

b) Reconciliation of book income with taxable income

	2015	2014
Current tax	-	-
Deferred tax	6,788	1,266
	6,788	1,266

Since FY 1998, the Company pays taxes under a consolidated statement. The current configuration of the Tax Group is the following:

- Tubos Reunidos, S.A. (parent company)
- Tubos Reunidos Industrial, S.L.U.
- Productos Tubulares, S.A.U.
- Tubos Reunidos Comercial, S.A.
- Aplicaciones Tubulares, S.L.
- Clima, S.A.U.

Corporate Tax of the Group differs from the theoretical amount that would be obtained by using the weighted average tax rate applicable to the consolidated companies of the Group as follows:

	2015	2014
Profit before taxes	(22,000)	6,185
Assignment to tax credit and I+D (Note 23)	(2,836)	(3,051)
Consolidation adjustments without tax effect	(500)	2,504
Permanent differences	54	(6,834)
Consolidated taxable amount	(25,282)	(1,196)

(Thousands of euros)

The "Consolidation adjustments without tax effect" item used for the calculation of the consolidated taxable amount corresponds in 2015 to an adjustment due to reversal of provisions at consolidated level, whose provision in previous financial years did not have a tax effect. In FY 2014 this item corresponds to the revenue from the sale of Aplicaciones Tubulares, C.A. (Atuca) (Note 1).

Permanent differences in FY 2014 correspond to a reversal of provisions which were not considered deductible in the financial year in which they were funded.

c) Composition of tax expense

The composition of corporate tax expense is the following:

	2015	**2014**
Tax calculated at the tax rates applicable to the profit of each consolidated company (*), considering permanent differences	(7,341)	822
Tax deductions generated in the financial year (Note 20)	(233)	(869)
Corrections in the tax estimation of the previous financial year	-	(57)
Capitalisation and carryforward of taxable income of previous years	(100)	(2,387)
Consolidation adjustments and others	886	1,225
Tax expense	(6,788)	(1,266)

(*) At 31 December 2015, profit before taxes of the consolidated companies is made up by 2.8 million euros (10.5 million euros in 2014) in profit for the companies with positive income and 31.4 million euros (0.7 million euros) in loss for companies with negative income. Of the companies with loss, certain companies with negative income in the amount of 2,700,000 euros (373,000 euros at 31 December 2014) have not registered the corresponding tax income (mainly in the distribution segment).

The “Consolidation adjustments and others” item broken down in the composition of tax expense corresponds to the tax impact of the registered consolidation adjustments. These adjustments mainly include the elimination of margins for internal transactions such as sale of stock or property.

Below is a breakdown of the tax expense corresponding to each Group company (in thousand euros):

	2015	2014
Tubos Reunidos, S.A.	(1,072)	1,117
Tubos Reunidos Industrial, S.L. (Single Shareholder Company) (TRI)	(6,677)	(2,095)
Productos Tubulares, S.A. (Single Shareholder Company) (PT)	(3,173)	(2,308)
Tubos Reunidos Premium Threads, S.L. (TRPT)	(98)	-
Industria Auxiliar Alavesa, S.A. (INAUXA)	381	387
Inaumex, S.A. de C.U.	231	121
Almacenes Metalúrgicos, S.A.U. (ALMESA)	-	(2.583)
Other minor items	29	(181)
Consolidation adjustments and others (*)	3,591	4,276
Tax expense	(6,788)	(1,266)

(*) In addition to the aforementioned consolidation adjustments, includes the assignment of tax credit to profit and loss (Note 23).

Furthermore, below is a detail of the tax rates applicable to each Tax Group/company in FY 2015 and 2014:

	2015	2014
Basque tax group	28%	28%
Inauxa	28%	28%
Almesa and Procalsa	25%	30%
Edai S.L. and Edai TU	28%	28%
Inaumex	30%	30%
Inautex	25%	25%
ACECSA	25%	25%

In addition to the information provided in Note 20, the applicable legislation for the settlement of corporate tax of FY 2015 is that corresponding to Regional Norm 37/2013 of 13 December of the Department of Álava for the Basque tax group.

The financial years open to inspection in regard to applicable taxes vary for the different companies of the consolidated Group, although they generally span the last three or four financial years, except for corporate tax which spans the period of 2011-2015 (both inclusive).

As a consequence, among others, of the different possible interpretations of current tax legislation, additional liabilities could arise as a result of an inspection. However, the directors consider that such liabilities, if they should occur, would not significantly affect the consolidated annual accounts.

29. Earnings per share

a) Basic earnings

The basic earnings per share are calculated by dividing the profit attributable to the shareholders of the Parent Company by the weighted average number of ordinary shares in circulation during the financial year, excluding acquired treasury stock (Note 14).

	2015	2014
Profit/(Loss) attributable to company shareholders from continuing activities	(16,188)	7,079
Weighted average number of ordinary shares outstanding (thousands)	174,289	173,993
Basic earnings/(loss) per share (€ per share)	(0.093)	0.041

b) Diluted earnings

The diluted earnings/(loss) per share are calculated by adjusting the weighted average number of ordinary shares outstanding in order to reflect the conversion of all potentially dilutive ordinary shares. The Company has no potentially dilutive ordinary shares.

30. Dividends per share

The dividends distributed charged to the profit of FY 2014 were the following:

	2014	
Approval date	Amount Euros/Share	Item
Shareholders' Meeting (7 May 2015)	0.0115	Dividend charged to 2014 income
	0.0115	

During FY 2014, the shareholders of the parent company agreed to distribute a dividend charged to income for FY 2013 of 0.018 euros per share.

The amount of treasury stock on the date of payment of dividends totalled 323,500 shares in 2015 (312,934 shares in 2014).

(Thousands of euros)

31. Cash generated by operations

	2015	2014
Profit of the financial year	(15,212)	7,451
Adjustments:		
– Tax (Note 28)	(6,788)	(1,266)
– Depreciation and impairment loss of material fixed assets (Note 6)	24,661	23,607
– Reversal of impairment of material fixed assets	-	(106)
– Impairment of assets available for sale (Notes 13 and 26)	385	-
– Depreciation of intangible assets (Note 7)	3,554	2,742
– Amortisation of real-estate investments (Note 5)	12	12
– (Profit)/loss in sale of material fixed assets /assets available for sale (Note 26)	(1,179)	(55)
– (Profit)/loss in sale of material/intangible fixed assets	-	(102)
– Other fixed asset-related income (subsidies) (Note 23)	(2,836)	(3,249)
– Variation in fair value of derivatives (*) (Note 9)	(2,625)	3,672
– Net provisioning (Notes 10, 11 and 21)	(2,054)	(10,654)
– Profit from disposal of shares (Note 26)	(975)	-
– Income from interest and shares in capital stock (Note 27)	(62)	(234)
– Interest expense (Note 27)	6,921	10,623
– Exchange rate differences (Note 27)	1,401	(1,586)
– Other adjustments to earnings	1,290	3,972
Variations in working capital:		
– Stock (Note 11)	17,273	(24,171)
– Trade and other accounts receivable (Note 10)	28,122	3,647
– Variation in provisions (payments) (Note 21)	(4,261)	(2,745)
– Suppliers and other accounts payable (Note 18)	(21,133)	32,008
Cash generated by operations	26,494	43,566

(*) Corresponds to variation in fair value of derivatives registered in the balance sheet (Note 9). This variation was registered in the "Net gains/(losses) for transactions in foreign currency" item.

32. Contingencies

The Group has contingent liabilities, namely bank and other guarantees related to the normal course of business with a cap of 3.7 million euros (2014, 4.7 million euros) for which no significant liabilities are foreseen. These guarantees correspond mainly to technical guarantees in keeping with commercial practices.

33. Commitments

a) Commitments to purchase fixed assets

The investments committed at balance sheet dates (and not incurred) total 15 million euros in 2015 and 16.3 million euros in 2014.

b) Financing of investment commitments

These investments are financed by means of payment agreements with providers and suppliers of equipment and other assets, as well as the planned generation of cash (Note 3.1.c).

34. Related party transactions

The transactions detailed below were conducted with related parties:

a) Transactions with shareholders

All buying and selling transactions for goods and services are conducted at market prices, similar to those applicable to unrelated third parties.

Below are the balances (in 000 euros) held at 31 December 2015 and 2014 with Grupo BBVA, the main shareholder of the Group, broken down by items and including contract terms:

FY 2015

Item	Balance drawn	Last expiry	Guarantees
Loans	32,586	2020	Personnel
Credit facilities	79	-	-
Discounted bills	323	Annual renewal	Personnel
Confirming	13,089	Annual renewal	Personnel
Factoring without recourse	501	-	Personnel
	46,578		

(Thousands of euros)

FY 2014

Item	Balance drawn	Last expiry	Guarantees
Loans	41,300	2019	Personnel
Credit facilities	507	-	-
Discounted bills	508	Annual renewal	Personnel
Confirming	9,931	Annual renewal	Personnel
	52,246		

The amount of interest paid by all Group companies to Grupo BBVA during FY 2015 in return for the aforementioned contracts and registered in the consolidated profit and loss account totalled 1,322,000 euros (2,638,000 euros in 2014).

b) Transactions with other related parties

	2015	2014
Financial expenses	14	-
	14	-

This corresponds to the financial expenses associated with the loan that Tubos Reunidos Premium Threads, S.L. received from Marubeni Itochu Tubulars Europe Plc at the end of 2015 (Note 19).

c) Loans with other related parties

	2015	2014
Loans with related parties (Note 19)	3,934	-
	3,934	-

(Thousands of euros)

d) Payment to key executives

During FY 2015, there was an organisational change in the Group that signified a reshuffling of the group of persons making up key management.

The aggregate annualised payment to General Managers and other executives of the Group Companies (management) who carry out their work directly under the Boards of Directors totalled 1,359,000 thousand euros in the financial year and corresponds to a group made up by 7 persons (2014, 1,877,000 euros, 7 persons, same number with changes in the persons occupying the posts) as detailed in the table below:

	2015	**2014**
Short term compensation	1,299	1,802
Post-employment benefits	60	75
	1,359	1,877

In 2011, a 2011-2014 incentives plan was approved which consisted in the payment of a variable income indexed to the value of the shares of the Parent Company in the 2011 to 2014 period, payable at the end thereof. At 31 December 2015 and 2014, there has been no need to provision for this item as the minimum established index has been reached and no amount has been accrued or paid in this regard, the plan having expired for all intents and purposes. The post-employment benefits settled during the financial year correspond to contributions to the Social Welfare System which the Group holds in general for all workers by means of fixed contributions to a Voluntary Mutual Benefit Entity (EPSV).

e) Fees of the Board of Directors of the Parent Company

The fees accrued in the course of the financial years ended on 31st December, 2015 and 2014, by the members of the Board of Directors of Tubos Reunidos, S.A. in their capacity as Company Directors, of any kind and for any reason, totalled 1,239,000 euros overall (2014, 1,772,000 euros, of which 242,000 euros corresponded to professional services rendered). Furthermore, in 2015, no contributions were made to the social welfare plan for one of the Board members (155,000 euros in 2014) as detailed in the following table:

	2015	**2014**
Short term compensation	1,239	1,617
Post-employment benefits	-	155
	1,239	1,772

The Group has not undertaken to pay any other benefits to its directors, either in the long term or indexed to shares, except for possible contributions to the welfare plan indicated above.

Moreover, during FY 2015, a provision of 290,000 euros was made, as there is increased probability that, eventually, the risk of additional contribution to the welfare system of one of the Board members may materialise.

Additionally, in 2015, a member of the Board of Directors received as compensation for termination of contract in 2008, agreed upon during that year when he was not a Board Member, an amount equal to the annual fees received in 2014 for provision of services.

During the 2015 and 2014 financial years, no loans have been granted to the members of the Board of Directors.

f) Article 228 of the revised text of the Capital Companies Act

Pursuant to avoiding situations of conflict of interest in the Parent Company, during FY 2015, those occupying posts in the Board of Directors have complied with the obligations of Article 228 of the revised text of the Capital Companies Act. Furthermore, both the directors and the persons related thereto have abstained from incurring in situations of conflict of interests as provided in Article 229 of said Law, there having been no notifications during the financial year of any direct or indirect conflict of interests to be taken into consideration by the Board of Directors of the Parent Company.

35. Other information

a) Fees paid to auditors and to companies of their group or related thereto

The auditors' fees of all the auditing firms that audit Group companies totalled 311,000 euros (2014, 258,000 euros).

The amount corresponding to FY 2015 and 2014 also includes auditing services for interim financial reporting.

The main auditor provided other services to Group companies in FY 2015 for an amount of 66,800 euros (2014, 2,800 euros). During FY 2015, there has been additional invoicing by other companies that use the PwC trademark in regard to tax consultancy services in the amount of 18,000 euros (2014, 27,000 euros).

(Thousands of euros)

b) Environmental issues

The material fixed assets of the Group include installations addressing environmental protection and improvement work, carried out with its own workers or with the support of specialised external companies, all this within the context of the environmental strategic plan undertaken to minimise the environmental risks associated with its activity and to improve environmental management. The amounts, both of investments made and of expenses accrued during FY 2015 for environmental protection and improvement, totalled 153,000 and 1,806,000 euros (2014, 410,000 and 2,027,000 euros) respectively, and are registered in the corresponding accounts of "Material fixed assets" of the attached consolidated balance sheet and in "Other expenses" of the attached consolidated profit and loss account.

In regard to emission rights (Notes 2.8 and 7), on 27 August 2004, Royal Decree Law 5/2004 was approved, thereby regulating the trade of emission rights for greenhouse gases, pursuant to helping to comply with the obligations deriving from the Kyoto Convention and Protocol. Moreover, on 5 November 2013, the Cabinet approved the definitive individual assignment of emission rights for greenhouse gases for the 2013 to 2020 period, with the Group being assigned 719,000 tons of CO2.

The tons assigned free of charge are distributed annually as follows:

	Assigned rights (mt)
2013	95,931
2014	94,264
2015	92,579
2016	90,875
2017	89,153
2018	87,415
2019	85,654
2020	83,889
Total	719,760

For FY 2015, the expense amount deriving from consumption of emission rights, which have been registered as balance for the corresponding provision (Note 21) totalled 605,000 euros (2014: 546,000 euros).

The estimation for emission rights consumption for FY 2015 does not exceed assigned rights. The rights consumed in FY 2014 did not exceed those assigned.

The Group’s Management does not foresee any type of sanction or contingency deriving from compliance with the requirements set forth in Law 1/2005.

TUBOS REUNIDOS, S.A. AND SUBISIDIARIES

CONSOLIDATED DIRECTORS' REPORT FOR 2015
(Thousands of euros)

1. Business trends and results

a) Basic financial and non-financial indicators

World growth in 2015, with levels of around 3%, fell with respect to 2014 on account of a slowdown in emerging markets for the fifth consecutive year and a decline in the recovery of advanced economies. Advanced economies did not meet expectations, mainly in the USA. For its part, the slowdown in emerging countries can be explained to a large degree by the sharp fall in oil prices and those of other raw materials, highlighting the slump in the Russian and Brazilian economies and a moderation of growth in China.

The outlook of the International Monetary Fund for 2016 forecasts growth in the world economy of around 3.4%, driven by the advanced economies and, to a greater extent, by emerging and developing markets. This growth continues to be determined by three basic aspects: 1) deceleration of economic activity in China, 2) the trend in fuel and other raw material prices, and 3) tightening of monetary policy in the United States.

During 2015, the Brent oil price has fallen by 35.8%, closing at 37.7 USD/barrel and accumulating a descent of 68.6% with respect to June 2014, when the fall commenced, due to the expectation that OPEC will continue to increase production in a context where world oil production continues to exceed consumption. Metal prices have also declined an estimated 22% in 2015 according to the IMF. This regression is reflected in a substantial depreciation of exchange rates of many commodities exporters. In the case of the United States, the dollar remained strong during FY 2015.

As a result of the fall in oil prices, the reduction in investment in oil & gas at the global level was in the region of 30% and more marked in North America, with an overall 62% drop in drilling platforms in service in the year. This drastic fall in investment prompted a drop in demand of 32% for OCTG products globally, and of around 55% in North America, as well as in the demand for pipeline products.

The results of Tubos Reunidos in FY 2015 were affected by this scenario of drastic decline in demand in the oil & gas segment, which represented 40% of Group sales in 2014, and by greater competition in other segments of the business, such as power generation and petrochemicals, which has led to a drop in sales and margins of the Group due to lower use of production capacity.

In this market scenario, Tubos Reunidos reconfirms its strategic focus and, counting with financial soundness to overcome the situation, has implemented a detailed action plan to curb the effects of the sharp fall in demand, increase competitiveness and enhance the Group's commercial position in order to continue to offer service solutions for its customers in the new scenario:

- It is boosting its international trade development and focusing on products with greater added value, in order to increase its presence in target geographical markets and segments:
    - In 2015, Tubos Reunidos progressed as planned in work to open the new OCTG threading plant with Marubeni-Itochu Steel Inc., under the Premium thread licence of JFE Steel Corporation, in order to start up production in April 2016, thus permitting an increased presence in new target geographical markets and segments. The new plant will have the most advanced technology and the commitment to be the most competitive in its sector.
    - Work continues on co-operation agreements with other market operators, backed by the new portfolio of special products and made-to-measure solutions for customers.
    - During the financial year, customers of the first order have been procured for the new products and there has been an increase in trade in target markets and segments, mainly the energy and petrochemical sectors of the Middle East and South-East Asia.
- **The Group has started up an action and competitiveness plan** in order to increase efficiency and structurally reduce its costs. Furthermore, all possible operating flexibility measures have been enacted in order to adapt costs to declining demand. These measures include, among others:
    - Efficiency and productivity improvement programmes in all the operational and industrial processes.
    - Acceleration of the learning curve for the new processes and products whose objectives are the reduction of waste and reprocessing.
    - Structural downsizing and optimisation.
    - Optimisation of procurement processes and renegotiation of all the elements of the supply chain.
    - Redefinition of the internal and external logistics and transport processes.
    - Implementation of a cost containment plan in all the lines of fixed and variable costs.

- **Reduction in the debt of the Group in FY 2015** and maintenance of the focus on generating cash flow and strict optimisation of the working capital, once the investments of the Group's strategic plan have been completed in 2015.

The demand for energy and petrochemical projects has kept up at a good pace. Tubos Reunidos has increased sales in large diameter tubes and has maintained sales in small diameter pressure tubes thanks to the broadening of its high added value product range and the procurement of new customers, improving product mix, with special tube sales representing 73.8% of total sales as compared to 65.3% in 2014.

The positive trends in sales destined for power generation and petrochemicals, principally in the Middle East and South-East Asia, was not sufficient to offset lower sales of OCTG and pipelines in the oil and gas segments in North America.

In this regard, the net profit of Grupo Tubos Reunidos in 2015 was a negative amount of 16.2 million euros, the net turnover for the year 2015 stands at 352.5 million euros, with EBITDA, before the extraordinary provision indicated below, of 19.8 million euros. These sums represent a decline of 13.6% and 52.2%, respectively, over the preceding financial year.

In 2015, due to the sales price trend, an extraordinary provision was made for impairment in realisation of stocks in North America in the amount of 7.9 million euros, before taxes.

In 2015, Tubos Reunidos completed the investments of its strategic plan, counting with the portfolio of new, industrialised high added value products. These investments are a firm commitment to innovate, both in terms of products and of processes, and enable the company to increase its competitiveness and added value, in order to focus on niches with greater growth and cost-effectiveness. Hence, the Group is focusing on the development of new steels, special tubes and technologically advanced production processes in order to meet the increasing demands of the energy sector and international markets; sectors and markets where the Group has obtained 79% and 83% of its sales in the steel tube business, respectively.

b) <u>Environmental and personnel matters</u>

In the Human Resources Department, 2015 was a year characterised by having to adapt to production and demand levels, as well as by the implementation of a generalised cost containment policy. Tubos Reunidos Industrial reduced its workforce by 117 workers at December 2015 compared to December 2014. In Productos Tubulares, the year ended with 432 active workers as compared to 455 in March 2015.

With regard to training, again in 2015 there has been compliance with the plan to increase the hours of training in Occupational Hazard Prevention, a priority issue in all the activities of Grupo Tubos Reunidos, and training addressing both multitasking and flexibility in the workplace and Technology and Customer Service, in order to provide the workforce with the required versatility to meet all the demands of our customers with greater effectiveness and efficiency and to adapt as needed to fluctuations in demand. Furthermore, there is a need to highlight the advancement in the Knowledge Management process started in 2012, which will last several years.

With regard to Occupational Hazard Prevention, the two main plants of the Group have once again posted one of the lowest accident rates on record. Moreover, Lloyd's Register Certification in compliance with OSHAS 18.001 was successfully maintained, and the corresponding audits were passed successfully.

Environment-friendliness continues to be a priority objective for Grupo Tubos Reunidos, pursuing a balance between its activity and sustainable development, and incorporating the tools which permit advancement towards ongoing environmental improvement. As in past years, Tubos Reunidos Industrial has taken important measures both in regard to health and safety and to environmental issues, successfully passing both the statutory inspections on emission points and the ISO 14001 Re-certification audit on the Environmental Management System. In Productos Tubulares, the objectives and goals set forth in the Basque Environmental Strategy for Sustainable Development 2002-2020 were met for 2015; the attainments of 2015 can be summarised in: passing of the first follow-up audit of the Integrated Management System (Quality, Environment and Prevention) in compliance with the requirements of ISO 9001: 2008, ISO 14001: 2004 and OHSAS 18001: 2007 international standards.

2. Liquidity and capital resources

At December 2015, the working capital of the Group totalled 74.6 million euros, signifying a drop of 26.7 million euros with respect to December 2014. Despite the important investments made in the financial year and the difficulties in the context of the sector, net financial debt dropped by 4.5 million euros in the period, going from 171.6 million euros in December 2014 to 167.1 million euros in December 2015.

The financial structure of the Group continues to be solid; during FY 2015, Tubos Reunidos signed new loan contracts obtaining an increase in liquidity, an extension of the debt maturities and greater financial flexibility as well as a reduction in the average cost of its bank financing. Additionally, Tubos Reunidos formalised a plan to issue fixed income securities - Euro Medium Term Note Programme (EMTN) - for a maximum amount of up to €50 million. This stock was listed on the regulated market of the Irish Stock Exchange. The amount issued in FY 2015 stands at 15.5 million euros.

As outcome of the operations to optimise the financing structure of the Group, financial costs overall in the financial year fell by 35% with respect to 2014.

Net equity of the Group at the close of the financial year totals 244.2 million euros, with total assets of 641.8 million euros.

As detailed in Note 18 b) of the consolidated report for FY 2015 and in the Tubos Reunidos website, the average payment period to suppliers is 75 days.

3. Main risks and uncertainties

The report on the consolidated annual accounts, presented and drawn up by the Board of Directors in compliance with International Accounting Standards, describes in detail the main risks and uncertainties inherent to the Group's business.

4. Important events arising after closure of the financial year

No significant events have arisen after the close of the financial year other than the normal business of Grupo Tubos Reunidos.

5. Information on foreseeable trends of the entity

Tubos Reunidos has begun the 2016 financial year with reduced visibility in regard to short term oil price trends and, consequently, cutbacks and uncertainty in the investment plans of the petrol and gas sector continue to affect demand for seamless tubes.

The market situation is weak overall, affected also by the sluggish global macroeconomic scenario, which slows down investment, pushes commodity prices downward, delays stock replacement decisions and exerts general pressure on prices in all markets. All of these factors will continue to weigh down profits during the first part of the year.

Despite this, the investments made and the intense technical-commercial activity of recent years by the Group, in line with its strategic plan, is opening the way for new opportunities in the special products market. Tubos Reunidos began 2016 with a wider range of high added-value tubes that are already industrialised and a high number of procured customers in the power generation and petrochemical segments. Likewise, the start of production at the new MISI plant in April 2016 will allow access to projects in new OCTG markets for the Group, supported by the commercial and service network of our partners.

These factors, combined with the progressive decline in oil wells, requiring replacement and an upturn in investment, together with the end of the stock reduction process in some key markets and the results of our cost containment plans, allow us to anticipate a gradual improvement in income as the year advances.

In 2016, it continues to be essential for Tubos Reunidos to continue with its flexibility policy, focusing especially on cost containment measures and the progress of the ongoing plan to adjust production capacity to the market situation. In the past, Tubos Reunidos has demonstrated its ability to deal with downward trending situations. In this way, while imagining that the market context might continue along the same lines, the Group's financial strength and the set of measures adopted - cost containment and cash protection, working capital efficiency plans and lower investments - allow the Company to tackle the situation with solvency in order to emerge with strengthened competitiveness and better prepared to continue to serve our customers in the new context.

6. R&D&i investments and activities

The investments made by the Group in fixed assets in 2015 totalled 32.9 million euros, of which 28.5 million euros were for the seamless tube business. Such investments in 2015 mainly addressed the threading plant in partnership with Marubeni–Itochu, totalling 12.2 million euros. In Productos Tubulares, such investments totalled 11.7 million euros and in Tubos Reunidos Industrial, 4.5 million euros.

During FY 2015, Tubos Reunidos Industrial developed an investment plan which signifies a boost to its objectives of specialisation, competitiveness and compliance with environmental and health and safety regulations. These investments, together with the development of the necessary know-how, have allowed broadening of the product range, positioning of new products in the market, advancement in the capacity to treat Premium tubes and increase in the supply of Proprietary Grades to the market. As in past years, important measures have been adopted regarding health and safety and environmental issues.

With respect to R&D&i activities in Tubos Reunidos Industrial, a major highlight is the extension of the range in all grades, either through the manufacture of new steels or through new and more demanding thickness-diameter combinations, especially in regard to alloy steels in keeping with the product trend for the energy sector.

In Productos Tubulares, as part of the investments in environmental and health and safety issues, special mention should be made of the improvement in workplace ergonomics in steelworks, improvement in the catchment system to minimise emissions, and control of the flow of waste of the different systems, as well as new facilities for treatment of ingots and perforated products by means of air arc cutting and the adaptation of current safety norms in the different working environments of the workshop.

With respect to R&D activities in 2015, Productos Tubulares has continued along the lines set in previous years, closing the three year cycle of the NOVOPROT II project, submitted to the Basque Agency for Business Development (SPRI) and with minor subsidising through GAITEK, addressing the design of new manufacturing methods for tubes with larger diameters and thicknesses, on the one hand, and of thicknesses of less than an inch on the other, and improvement in the capacity to cast round ingots in new dimensions.

Given the innovation of the new processes and products of the companies, the investments and new developments have had the support of TRI and PT engineering and the co-operation of technological centres, universities and other R&D specialists.

7. Acquisition and redemption of treasury stock

During FY 2015, the only treasury stock transactions conducted were in the context of the Liquidity Contract. Both the contract conditions and the detail of the specific transactions conducted were duly notified to the National Commission for the Securities Market (CNMV) and can be consulted in the Commission's website. To summarise, during 2015, 4,150,464 treasury shares were purchased and 3,911,216 were sold, with a balance in treasury shares at 31 December of 562,748 shares.

25 February 2016

The Board of Directors of **"TUBOS REUNIDOS, S.A.."** with Tax Id. Nº A / 48/011555 and registered offices in Amurrio (Álava), in compliance with Article 253 of the Revised Text of the Capital Companies Act, draw up the annual accounts and management report of **TUBOS REUNIDOS, S.A. AND SUBSIDIARIES** for FY 2015, written and identified in the manner indicated below:

Consolidated annual accounts:

- Index: written on two (2) sheets of stamped paper, numbers OM2378502 and OM2378503.
- Consolidated balance sheet: written on one (1) sheet of stamped paper, number OM2378504.
- Consolidated profit and loss account: written on one (1) sheet of stamped paper, number OM2378505.
- Consolidated comprehensive income statement: written on one (1) sheet of stamped paper, number OM2378506.
- Consolidated statement of changes in net equity: written on one (1) sheet of stamped paper, number OM2378507.
- Consolidated cash flow statement written on one (1) sheet of stamped paper, number OM2378508.
- Consolidated report: written on eighty-nine (89) sheets of stamped paper, numbers OM2378509 to OM2378597.

Management report: written on seven (7) sheets of stamped paper, numbers OM2378599 to OM2378605 together with the **Annual Corporate Governance Report (IAGC):** written on forty-nine (49) sheets of stamped paper, numbers OL8101382 to OL8101430.

Furthermore, the Directors of the Company declare that, to the extent of their knowledge, the annual accounts drawn up in compliance with applicable accounting principles present a true and fair image of the equity, financial situation and income of the issuing entity and of the companies comprised in the consolidation taken as a whole, and that the management report includes a true and fair analysis of business trends, profit and situation of the issuing entity and of the companies comprised in the consolidation taken as a whole, together with a description of the main risks and uncertainties which affect them.

For all relevant purposes and as introduction to said statements and report, this document is signed by:

Pedro Abásolo Albóniga
(Chairman -Other interests)

Emilio Ybarra Aznar
(Vice-Chairman – Proprietary Director)

Alfonso Barandiaran Olleros
(Proprietary Director)

Alberto Delclaux de la Sota
(Director - Other interests)

Francisco José Esteve Romero
(Proprietary Director)

Jorge Gabiola Mendieta
(Secretary-Other interests)

María Luisa Jorda Castro
(Independent Director)

Luis Alberto Mañas Antón
(Independent Director)

Ana Muñoz Beraza
(Independent Director)

Enrique Portocarrero Zorrilla-Lequerica
(Proprietary Director)

Roberto Velasco Barroetabeña
(Independent Director)

Leticia Zorrilla de Lequerica Puig
(Proprietary Director)

QMC Directorships, S.L.
(Represented by Jacobo Llanza Figueroa)
(Proprietary Director)

Amurrio (Alava), 25 February 2016.