TUBOS REUNIDOS, S.A.

JORGE GABIOLA MENDIETA, Attorney at Law, Secretary of the Board of Directors of **TUBOS REUNIDOS, S.A.,** with registered address at Amurrio (Álava), Bº Sagarribay s/n, and registered in the Commercial Register of Álava, volume 881, sheet 22 reverse, page VI 6719 and with CTC number A-48011555.

HEREBY CERTIFIES

That the English version of the Consolidated Annual Accounts of Tubos Reunidos and its corresponding subsidiaries for the year ended 31 December 2016 has been translated by the Company under its sole responsibility and is not deemed as official. Consequently, in case of discrepancy, the Spanish version shall prevail.

That the individual annual accounts and the Annual Corporate Governance Report (IAGC) for the year 2016 have not been translated. These documents can be found on the CNMV's website in Spanish only.

I hereby sign this certificate, in Amurrio (Álava), on 18 May 2017.

Vº Bº

Pedro Abasolo (Presidente)

Tubos Reunidos, S.A. and subsidiaries

Audit Report,
Consolidated Annual Accounts at 31 December 2016
and Directors' Report for 2016

"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, 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated 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, 2016, 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.

Emphasis of Matter

We draw attention to note 3.1.c) to the accompanying consolidated annual accounts which indicates that, although the Group has a negative working capital, it is currently in the process of restructuring its bank debt to adapt the repayments of future debt to estimated future cash flows based on its strategic plan.

The process is at an advanced stage and the directors expect it to conclude successfully in the near future. However, at the date of issuance of this report, and until the restructuration process of the bank debt has finalized, the situation described above is indicative of the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. This matter does not modify our opinion.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 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 2016. 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 Escudero

28 April 2017

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Directors' Report for the financial year ended at 31 December 2016

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

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CONSOLIDATED DIRECTORS' REPORT 2016

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

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016
(In thousands of euros)

		At 31 December	
ASSETS	**Note**	**2016**	**2015**
Property, plant and equipment	**6**	377,111	366,092
Other intangible assets	**7**	12,749	14,674
Property investment	**8**	2,426	412
Non-current assets	**9**	186	150
Deferred tax assets	**21**	51,443	57,391
NON-CURRENT ASSETS		443,915	438,719
Inventories	**12**	101,921	121,795
Trade and others accounts receivable	**9/11**	17,741	45,810
Derivative financial instruments	**9/10**	-	24
Other current financial assets	**9**	520	5,392
Other current assets		237	-
Cash and cash equivalents	**9/13**	7,620	26,955
CURRENT ASSETS		128,039	199,976
NON-TRANSFERABLE GROUP ASSETS CLASSIFIED AS HELD FOR SALE	**14**	7,025	3,120
TOTAL ASSETS		**578,979**	**641,815**
LIABILITIES AND NET EQUITY			
Share capital	**15**	17,468	17,468
Share issuance premium		387	387
Other reserves	**16**	48,924	48,924
Retained earnings	**16**	110,733	160,915
Accumulative difference in exchange rate		1,700	401
Less: Treasury shares	**15**	(937)	(1,026)
EQUITY ATTRIBUTED TO HOLDERS OF NET EQUITY INSTRUMENTS OF THE PARENT COMPANY		178,275	227,069
Minority interests	**17**	3,668	17,106
TOTAL EQUITY		181,943	244,175
DIFFERED INCOME	**18**	13,865	15,094
External funds	**9/20**	149,055	161,240
Deferred tax liabilities	**21**	26,156	21,417
Derivative financial instruments	**10**	61	54
Other non-current assets	**9/19**	33,155	40,500
Provisions	**22**	1,916	2,937
NON-CURRENT ASSETS		210,343	226,148
External funds	**9/20**	59,870	42,146
Suppliers and other accounts payable	**9/19**	103,286	108,375
Derivative financial instruments	**9/10**	1,044	114
Provisions	**22**	4,003	5,763
CURRENT ASSETS		168,203	156,398
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**14**	4,625	-
TOTAL LIABILITIES		397,036	397,640
TOTAL LIABILITIES AND NET EQUITY		**578,979**	**641,815**

Notes 1 to 38 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of euros)

	Note	Financial year ended at 31 December 2016	Financial year ended at 31 December 2015
Amount of net turnover	**23**	194,928	278,065
Other income	**24**	6,495	9,431
Change in inventory of finished products or those in production	**12**	(450)	(9,484)
Supplies	**12**	(90,842)	(121,599)
Expenses for employee benefits	**25**	(86,096)	(84,123)
Depreciation and amortisation	**6/7/8**	(24,191)	(23,519)
Other expenses	**26**	(62,840)	(69,080)
Other income / net (losses)	**27**	8,137	3,497
Negative difference in business combinations	**28**	12,223	-
OPERATING PROFIT / (LOSS)		(42,636)	(16,812)
Financial income	**29**	88	56
Financial expenses	**29**	(7,294)	(6,360)
Foreign exchange (net)	**29**	409	565
FINANCIAL RESULTS		(6,797)	(5,739)
PROFIT/(LOSS)BEFORE TAXES FROM ONGOING OPERATIONS		(49,433)	(22,551)
Income tax expenses	**30**	732	7,539
PROFIT/(LOSS) FOR THE YEAR AFTER TAXES FROM ONGOING OPERATIONS		(48,701)	(15,012)
NET INCOME OF DISCONTINUED OPERATIONS	**14**	(2,536)	(200)
PROFIT/(LOSS) FOR THE YEAR		(51,237)	(15,212)
Minority interests - profit / (loss)	**17**	(1,063)	976
EARNINGS ATTRIBUTED TO HOLDERS OF NET EQUITY INSTRUMENTS OF THE PARENT COMPANY		**(50,174)**	**(16,188)**

	Note	Financial year ended at 31 December 2016	Financial year ended at 31 December 2015
Earnings/Losses per share of ongoing operations and discontinued operations attributable to the owners of the parent company (expressed in euros per share)	**31**		
Basic earnings per share:			
- From ongoing operations		(0.273)	(0.085)
- From discontinued operations		(0.015)	(0.007)
		(0.288)	(0.093)
Diluted earnings per share:			
- From ongoing operations		(0.273)	(0.085)
- From discontinued operations		(0.015)	(0.007)
		(0.288)	(0.093)

Notes 1 to 38 of the consolidated report 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 2016
(In thousands of euros)

	Financial year ended at 31 December	
	2016	**2015**
PROFIT OF THE FINANCIAL YEAR	**(51,237)**	**(15,212)**
OTHER COMPREHENSIVE RESULTS		
Items that can subsequently be classified as results		
Foreign exchange differences	1,394	776
Cash flow hedging	(8)	(54)
TOTAL COMPREHENSIVE RESULTS FOR THE FINANCIAL YEAR	**(49,851)**	**(14,490)**
Attributable to:		
- Shareholders of the Parent Company	(48,680)	(15,767)
- Minority interests	(1,171)	1,277
	(49,851)	**(14,490)**
Total comprehensive results for the financial year attributable to Shareholders of the Parent Company		
- Ongoing operations	(46,099)	(14,769)
- Discontinued operations	(2,581)	(998)
	(48,680)	**(15,767)**

Notes 1 to 38 of the consolidated report 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 2016
(In thousands of euros)

	Attributable to the shareholders of the Company							
	Share capital (Note 15)	Treasury shares (Note 15)	Share issuance premium (Note 15)	Other reserves (Note 16)	Accumulative difference in exchange rate	Retained earnings (Note 16)	Minority earnings (Note 17)	Total net equity
Balance at 31 December 2014	17,468	(790)	387	48,924	(74)	179,192	15,829	260,936
Total comprehensive income 2015	-	-	-	-	475	(16,242)	1,277	(14,490)
Operations with treasury shares (Note 15)	-	(236)	-	-	-	-	-	(236)
Dividends (Note 31)	-	-	-	-	-	(2,005)	-	(2,005)
Other movements	-	-	-	-	-	(30)	-	(30)
Balance at 31 December 2015	17,468	(1,026)	387	48,924	401	160,915	17,106	244,175
Total comprehensive income 2016	-	-	-	-	1,502	(50,182)	(1,171)	(49,851)
Operations with treasury shares (Note 15)	-	89	-	-	-	-	-	89
Variations in the scope of consolidation (Note 14)	-	-	-	-	(203)	-	(12,267)	(12,470)
Balance at 31 December 2016	17,468	(937)	387	48,924	1,700	110,733	3,668	181,943

Notes 1 to 38 of the consolidated report 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 2016
(In thousands of euros)

	Note	Financial year ended on 31 December	
		2016	**2015**
Cash flow from operating activities			
Cash generated from the operations	**33**	7,148	26,494
Interest received	**29**	88	62
Interest paid	**20 and 29**	(6,719)	(6,507)
Net cash generated from operating activities		517	20,049
Cash flow from investment activities			
Acquisition of property, plant and equipment	**6 and 19**	(27,248)	(31,342)
Proceeds from sale of property, plant and equipment and intangible fixed assets	**6 and 7**	886	2,460
Income from the sale of assets held for sale	**14**	950	2,127
Acquisition of intangible assets	**7**	(3,839)	(3,854)
Net withdrawals of financial assets	**9**	4,802	846
Divesting in affiliates	**27**	-	975
Business combination	**28**	(19,543)	-
Net disinvestment automotive segment	**14**	11,324	-
Net cash used in investment activities		(32,668)	(28,788)
Cash flow from financing activities			
Acquisition and amortisation of treasury shares	**15**	89	(236)
Additions by external funds	**20**	69,214	78,740
Additions other debts	**19**	2,720	16,064
Amortisation of external funds	**20**	(55,847)	(71,192)
Amortisation other debts	**19**	(4,002)	(4,226)
Dividends paid out to the shareholders of the Company	**32**	-	(2,005)
Grants received		642	256
Net cash used in financing activities		12,816	17,401
Net (reduction)/increase in cash and cash equivalents		**(19,335)**	**8,662**
Cash and bank overdrafts at the beginning of the financial year	**13**	26,955	18,293
Cash and bank overdrafts at the close of the financial year		**7,620**	**26,955**

Notes 1 to 38 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016
(In thousands of euros)

1. General information

Tubos Reunidos, S.A. (T.R.) as a holding company is the head of a group comprised of various companies (see attached table) with activities in the areas of seamless piping, distribution and others. Its registered office and tax residence is in Amurrio (Alava, Spain).

The parent company is a *sociedad anónima* (Spanish public limited company) that is listed on the Bilbao and Madrid Stock Markets.

The relationship of the consolidated subsidiary companies, which are linked by the full consolidation method given that they all have a majority share in or control of the Company, is as follows:

Company and registered office	Activity	%	Parent company	Auditor
Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) (TRI) Amurrio (Alava)	Industrial	100	T.R.	PwC
Productos Tubulares, S.A. (Sociedad Unipersonal) (PT) Valle de Trápaga (Vizcaya)	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 (Alava)	Industrial	51	T.R.	PwC
T.R. América, Inc. Houston (Texas)	Distribution	100	T.R.	Weaver
Almacenes Metalúrgicos, S.A.U. (ALMESA) Güeñes (Vizcaya)	Distribution	100	T.R.	PwC
T.R. Comercial, S.A. Amurrio (Alava)	Distribution	100	T.R.	-
Clima, S.A.U. (CLIMA) Bilbao	Holding company	100	T.R.	-
Aplicaciones Tubulares, S.L. Bilbao (Vizcaya)	Holding	100	T.R.	(**)
RDT, Inc. Houston (Texas)	Industrial	100	Aplicaciones Tubulares, S.L.	(**)

(*) Fully consolidated companies given that the Group has effective control of the same (Note 4.2).
(**) Review by PwC for the consolidated statement.

Variations in the scope of consolidation

The assets and liabilities corresponding to the automotive segment (segment made up the companies Industria Auxiliar Alavesa, S.A. (INAUXA), Engineering Developments for Automotive Industry, S.L. (EDAI), EDAI Technical Unit, A.I.E., Kunshan Inautek Automotive Components Co. Ltd. and Inaumex, S.A. de C.V.) were presented in the abridged consolidated interim annual accounts corresponding to the period of six months ended 30 June 2016 as held for sale after the decision to initiate the sale process adopted by the Company's Board of Directors at its meeting on 28 April 2016. During the month of June 2016, the Group, along with other minority shareholders of the automotive segment, signed a binding agreement for the sale of all its shares in the companies of this segment and the conclusion of the transaction was subject to approval by competition authorities, whose decision was received on 11 July 2016, with the sale being concluded on 29 July 2016 (Note 14).

During the second half of 2016, the Group acquired an OCTG product manufacturing business and service in the United States through the purchase of the majority of the assets, property, contractual rights and most of the elements of the business from several companies. With the closing of the transaction, the Group constituted the company RDT Inc. (the acquirer of the business), assigning the group company Aplicaciones Tubulares, S.L. 100% of the shares of that company. The transaction took place on 15 September 2016 (Note 28).

On 3 November 2016, the merger took place through joining Almacenes Metalúrgicos, S.A. (Sociedad Unipersonal) as the acquiring company and Profesionales de Calefacción y Saneamiento, S.L. (Sociedad Unipersonal) as the merged company (both companies formed the segment distribution at 31 December 2015).

During the 2015 financial year, the company of the group Productos Tubulares, S.A. (Sociedad Unipersonal) sold the 31% stake that it had in the company Perimetral Sallen Technologies, S.L. The sale of this stake added 975 thousand euros to the consolidated profit and loss account for financial year 2015.

Consolidated annual accounts

The annual accounts of the Group companies used in the consolidation process are in all cases, those related to the financial year ended 31 December for each financial year.

Formulation of accounts

The annual accounts for 2015 were prepared by the Board of Directors of the Parent Company on 25 February 2016, and were approved by the General Shareholders' Meeting on 29 June 2016. The 2016 annual accounts have been prepared by the Board of Directors of the Company on 30 March 2017 and are pending approval by the General Shareholders' Meeting. However, the Group Management understands that these are to be approved without changes.

2. Summary of the main accounting policies

The main accounting policies adopted in the drafting of these consolidated annual accounts are described below. Except as indicated in Note 2.1 below, the accounting policies have been consistently applied to all years analysed by these consolidated annual accounts.

2.1 Bases of presentation

The consolidated annual accounts for the Group at 31 December 2016 were prepared in accordance with the International Finance Reporting Standards (IFRS) adopted for use in the European Union (IFRS-EU) and approved by the Regulations of the European Commission, which are valid at 31 December 2016 and the IFRIC interpretations.

The consolidated annual accounts were prepared using the historical cost method, although modified by the revaluation of financial assets available for sale and the financial assets and liabilities (including derivative instruments) at fair value with changes in the results.

The preparation of the annual accounts, as well as that of the consolidated annual accounts, in accordance with the EU IFRS, requires the use of certain critical accounting estimates. It also requires that management exercise its judgement in the process of applying the Group's accounting policies. Note 4 discusses the areas involving a higher degree of judgement or complexity, or those areas where assumptions and estimates are significant to the consolidated annual accounts.

Assets and liabilities relating to the company Almacenes Metalúrgicos S.A. (Sociedad Unipersonal) (hereinafter "the distribution segment") are presented as held for sale at 31 December 2016 following the decision by the Board of Directors of the parent Company, at its meeting on 22 December 2016 (Note 14). The results of said companies during financial year 2016 have been classified under the heading "net income from discontinued operations" of the abridged consolidated profit and loss account attached (Note 14), after having considered the activities of the companies previously indicated as a differentiated segment. As a result, in accordance with IFRS 5, the results from the distribution segment previously presented in the consolidated annual accounts at 31 December 2015 under the heading "results from ongoing operations", have been reclassified and included under the heading "net income of discontinued operations".

The conditions set by IFRS 5 for the classification in this segment as discontinued operations are met, given that in addition to the Boards' decision, a buyer has been sought, the business is available for sale and the probability of selling it in the short-term is high as described in Note 14, due to the level of progress of the sale process which is under way.

(In thousands of euros)

Similarly, the results generated by the companies Industria Auxiliar Alavesa, S.A. (INAUXA), Engineering Developments for Automotive Industry, S.L. (EDAI), EDAI Technical Unit, A.I.E., Kunshan Inautek Automotive Components Co. Ltd. and Inaumex, S.A. de C.U. (hereinafter, the "automotive segment") up to 29 July 2016, the date on which the sale of that segment took place (Note 14), has been classified under the heading "net income from discontinued operations" of the consolidated profit and loss account attached (Note 14), after having considered the activities of the companies previously indicated as a differentiated segment. As a result, in accordance with IFRS 5, the results from the automotive segment, previously presented in the consolidated annual accounts at 31 December 2015 under the heading "results from ongoing operations", have been reclassified and included under the heading "net income from discontinued operations".

In light of the aforementioned, the profit and loss account corresponding to the financial year ended 31 December 2015 of the present consolidated annual accounts had to be provided as a new presentation. The information below outlines the abridged consolidated profit and loss account corresponding to 31 December 2015 included in the consolidated annual accounts prepared by the parent company Directors on 25 February 2016.

	Financial year ended at 31 December
	2015
Amount of net turnover	352,478
Other income	11,522
Change in inventory of finished products or those in production	(6,281)
Supplies	(172,678)
Expenses for employee benefits	(99,155)
Depreciation and amortisation	(28,227)
Other expenses	(77,712)
Other income / net (losses)	3,688
OPERATING PROFIT / (LOSS)	(16,365)
Financial income	62
Financial expenses	(6,921)
Foreign exchange (net)	1,224
Impairment and results from disposals of financial instruments	-
Participation of affiliates and joint ventures in the profit and loss for the financial year accounted for using the equity method	-
FINANCIAL RESULTS	(5,635)
RESULTS BEFORE TAX OF ONGOING OPERATIONS	(22,000)
Income tax expenses on profits	6,788
RESULTS AFTER TAX OF ONGOING OPERATIONS IN THE FINANCIAL YEAR	(15,212)
RESULTS OF FINANCIAL YEAR	(15,212)
Minority interests	976
RESULTS ATTRIBUTED TO HOLDERS OF NET EQUITY INSTRUMENTS OF THE PARENT COMPANY	**(16,188)**

With the entry into force on 1 January 2016 of certain International Finance Reporting Standards, the Company adapted its consolidated annual accounts to said standards. The standards that have entered in force are outlined below.

The consolidated annual accounts are not affected by any issues that may contravene the applicable basis of presentation.

2.1.1 Relationship and summary of standards, amendments to standards and interpretations published to date

a) Compulsory regulations, amendments and interpretations for all of the financial years commencing 1 January 2016

Annual improvements to the IFRS, 2010–2012 Cycle:

In December 2013, the IASB published the Annual Improvements to the IFRS for the 2010-2012 Cycle. The amendments added in these Annual Improvements in general apply to the financial years beginning 1 February 2015 onwards, although they may be adopted before then. The main amendments refer to:

- IFRS 2 "Share-based payment": Definition of "vesting condition".
- IFRS 3 "Business combinations": Accounting for contingent consideration in a business combination.
- IFRS 8 "Operating segments": Information to be disclosed about the aggregation of operating segments and the reconciliation of the total of the reportable segments' assets to the entity's assets.
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets": Proportional restatement of accumulated depreciation when using the revaluation method.
- IAS 24 "Key management personnel": An entity providing key management personnel services as a related party.

These changes have no significant effect on the Group's consolidated annual accounts.

IAS 19 (Amendments) "Defined Benefit Plans: Employee contributions":

IAS 19 (revised in 2011) distinguishes between employee contributions related to the service provided and others not linked to the service. The current amendment also distinguishes between contributions linked to the service only in the financial year in which they occur and those linked to the service in more than one financial year. The amendment allows the contributions related to the service that do not vary with its duration to be deducted from the cost of the provisions accrued in the financial year in which the corresponding service is provided. In terms of the contributions related to the service that do vary according to its duration, they must be extended during the service provision period using the same method of allocation as is applied to the provisions. This amendment applies to the financial years beginning 1 February 2015 and applies retrospectively. Early adoption is permitted.

This change has no significant effect on the Group's consolidated annual accounts.

IFRS 11 (Amendment) "Accounting for acquisitions of holdings in joint arrangements":

It requires application of the accounting principles of a combination of businesses to an investor that acquires a share in a joint venture constituting a business. Specifically, it must assess the identifiable assets and liabilities at fair value, assign costs related to the acquisition as an expense, recognise the deferred tax, and recognise the remainder as goodwill. All of the other accounting principles of a combination of businesses apply, unless they are in conflict with IFRS 11. This amendment will be prospectively applied for the financial years beginning 1 January 2016 onwards, although early adoption is permitted.

This change has no effect on the Group's consolidated annual accounts.

IAS 16 (Amendment) and IAS 38 (Amendment) "Clarification of Acceptable Methods of Amortisation":

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate; as such methods reflect different consumption factors from the economic benefits included in the asset. The IASB also explains that a revenue-based amortisation method for intangible assets is inappropriate for assessing the consumption of the economic benefits incorporated in an intangible asset. This amendment applies to the financial years beginning 1 January 2016 and will apply prospectively. Early adoption of the amendment is admitted.

This change has no effect on the Group's consolidated annual accounts.

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

Under this amendment, bearer plants must be accounted for in the same way as property, plant and equipment, unlike other biological assets. As a result, the amendments include these plants within the scope of IAS 16, rather than IAS 41. Products that grow on these plants will remain within the scope of IAS 41. These amendments will apply for financial years beginning 1 January 2016 and will be applied prospectively, although early adoption is permitted.

The Group does not hold assets that are affected by these changes.

IAS 27 (Amendment) "Separate financial statements":

IAS 27 is amended to restore the option of using the equity method of accounting to account for investments in subsidiaries, joint ventures and affiliates in the separate financial statements of an entity. The definition of separate financial statements has also been clarified. An entity that chooses to change to the equity method of accounting will apply the amendments for financial years beginning 1 January 2016 in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Early adoption is permitted.

The Group does not present separate financial statements under IFRS-EU.

Annual Improvements of the IFRS. 2012–2014 Cycle:

The amendments affect IFRS 5, IFRS 7, IAS 19 and IAS 34, and will apply to financial years beginning 1 January 2016, subject to their adoption by the EU. The main amendments refer to:

- IFRS 5, "Non-current assets held for sale and discontinued operations": Changes to disposal methods.
- IFRS 7 "Financial instruments: Disclosures": Continuing involvement in servicing contracts.
- IAS 19, "Employee benefits": Determining the discount rate for post-employment benefits.
- IAS 34, "Interim financial reporting": Information presented elsewhere in an interim financial report.

These amendments have been considered in the drafting of the Group's consolidated annual accounts.

IAS 1 (Amendment) "Presentation of Financial Statements":

The amendments to IAS 1 encourage companies to use professional judgement when determining what information to disclose in the financial statements. The amendments clarify that materiality applies to all of the financial statements and that the inclusion of immaterial information may hinder the value of financial reporting. Furthermore, the amendments clarify that entities should use their professional judgement when determining where and in what order to present the information in the financial statements.

The amendments to IAS 1 may be applied immediately and they are compulsory for financial years beginning 1 January 2016.

This change has no significant effect on the Group's consolidated annual accounts.

IFRS 10 (Amendment), IFRS 12 (Amendment) and IAS 28 (Amendment) "Investment entities: Application of the consolidation exception":

These amendments clarify three aspects concerning the application of the requirement for investment entities to assess subsidiaries at fair value instead of consolidating them. The proposed amendments:

- Confirm that the exception to presenting consolidated financial statements continues to apply to the subsidiaries of an investment entity that are themselves parent entities;

- Clarify when a parent investment entity should consolidate a subsidiary that provides investment-related services instead of assessing that subsidiary at fair value; and

- Simplify the application of the equity method by a non-investment entity investor that has a share in a subsidiary that is an investment entity.

They become effective for the financial years beginning 1 January 2016 onwards, although they may be adopted before then.

This change has no significant effect on the Group's consolidated annual accounts.

b) Standards, amendments and interpretations that have not yet entered into force, but that can be adopted in advance of the financial years beginning on or after 1 January 2016

At the date of signing these consolidated annual accounts, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations outlined below and whose application is mandatory from financial year 2016 onwards, although the Group has not adopted them in advance.

IFRS 9 "Financial instruments":

Covers the classification, assessment and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014 and replaces the guide of IAS 39 on classifying and assessing financial instruments. IFRS 9 maintains but simplifies the mixed assessment model and establishes three main assessment categories for financial assets: amortised cost, at fair value with changes in income and at fair value with changes in other comprehensive income. The classification basis depends on the entity's business model and the contractual cash flow characteristics of the financial asset. It is required that investments in net equity instruments be assessed at fair value with changes in income, with the irrevocable option to start presenting the changes at fair value in other non-recyclable comprehensive income, provided that the instrument is not held for trading. If the equity instrument is held for trading, the changes in the fair value are presented in the results. In relation to financial liabilities, there have been no changes in terms of classification and assessment, except for the recognition of changes in the credit risk in other comprehensive results for liabilities allocated at fair value with changes in the results. Under IFRS 9, there is a new loss model for value impairment, the model of expected credit losses, which replaces the model of losses due to impairment incurred of IAS 39 and which will give rise to the recognition of losses rather than as was done under IAS 39. IFRS 9 relaxes the requirements for hedging effectiveness. With IAS 39, a hedge must be highly effective, both prospectively and retrospectively. IFRS 9 replaces the approach requiring an economic relationship between the hedged item and the hedging instrument and that the ratio covered be the same as what the entity actually uses to manage risk. Concurrent documentation is still necessary, but it is different from the documentation that had to be prepared under IAS 39. Finally, a broad range of information is required, including a reconciliation between the initial and final amounts of the provision for expected credit losses, assumptions and data, and a reconciliation in the transition between the categories of the original classification under IAS 39 and the new classification categories under IAS 9.

IFRS 9 is in effect for the financial years beginning 1 January 2018 onwards, although they may be adopted before then. IFRS 9 will be applied retroactively, but comparative figures will not be required to be restated. If an entity should opt to adopt IFRS 9 early, it must apply all of the requirements at the same time. The entities that apply the standard before 1 February 2015 still have the option of applying the standard in phases.

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

IFRS 15 "Revenue from contracts with customers":

In May 2014, the IASB and FASB jointly issued a combined standard relating to the recognition of revenue from contracts with customers. Under this standard, revenue is assigned when a customer obtains control of the good or service sold, i.e. when they have both the capacity to direct the use and obtain the benefits from the good or service. This IFRS includes a new guide to determine if they must recognise revenue over time or at a point in time. The IFRS 15 demands a broad range of information both on the revenue acknowledged and revenue expected to be acknowledged in the future in relation to existing contracts. In addition, it demands quantitative and qualitative information regarding the significant judgements of the management in determining the revenue that they recognise, as well as about the changes to these judgements.

Subsequently, in April 2016, the IASB published amendments to this standard, which, whilst they do not amend the fundamental principles, clarify some of the more complex aspects.

IFRS 15 will be effective for the financial years beginning 1 January 2018 onwards, although early adoption is permitted.

The company is in the process of assessing impacts, although no significant impacts are expected on the basis that the contracts involve a single obligation, consisting in most cases in delivering products without providing any additional services.

c) Standards, amendments and interpretations to existing standards that may not be adopted early or that have not been adopted by the European Union.

At the date of preparing these consolidated annual accounts, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations outlined below and pending adoption by the European Union.

IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its affiliates or joint ventures":

These amendments clarify that in a transaction involving an affiliate or joint venture, the extent of gain or loss recognition depends on whether the non-monetary assets sold or contributed to an affiliate or joint venture constitute a "business". The investor will recognise the complete gain or loss when the non-monetary assets constitute a "business". If the assets do not fit the definition of a business, the investor recognises the gain or loss to the extent of unrelated investors' interests. The amendments will only apply when an investor sells or contributes to its affiliate or joint venture.

The amendments to IFRS 10 and IAS 28 were originally prospective and effective for the financial years beginning 1 January 2016. However, at the end of 2015, the IASB took the decision to postpone the effective date of said amendments (without setting a new specific date), since it is planning another broader revision that may lead to the simplification of accounting for these transactions and other aspects of accounting for affiliates and joint ventures.

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

IFRS 16 "Leases":

In January 2016, the IASB published this new standard as a result of a joint project with the FASB, which replaces IAS 17 "Leases".

The IASB and FASB arrived at the same conclusions in many areas related to accounting for leasing contracts, including the definition of a lease, the requirement, as a general rule, to reflect leases on the balance sheet and the assessment of liabilities for all leases. The IASB and FASB also agreed not to include substantial changes to accounting procedures for the lessee, and instead maintaining similar requirements to those from the previous standard in force.

Nevertheless, there are still differences between the IASB and the FASB in terms of recognising and presenting expenses related to leases on the profit and loss account and the cash flow statement.

These amendments will apply to the financial years beginning 1 January 2019. Early application is allowed if IFRS 15, "Revenue from contracts with Customers", is applied at the same time.

The Group is analysing the impact that the standard may have on the consolidated annual accounts.

The Group will create an inventory of all operating leases affected by this amendment to estimate the impact on their accounts and start preparing information systems so as to be prepared for financial year 2018, a year that will be presented for comparative purposes on the consolidated annual accounts of financial year 2019. However, except for two leases of industrial buildings, other lease agreements correspond mainly to IT equipment leases.

IAS 7 (Amendment) "Presentation of Financial Statements":

An entity is obligated to disclose information that allows users to understand the changes in liabilities that arise from financing activities. This includes changes arising from:

- Cash flow, such as contributions and loan repayments; and
- Non-monetary changes, such as acquisitions, disposals and unrealised exchange rate differences.

Liabilities arising from financing activities are liabilities "for which cash flow was, or future cash flow will be, classified in the statement of cash flow as cash flow from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets (e.g. assets that cover liabilities arising from financing activities) if the cash flow of those financial assets was included, or the future cash flow will be included, in the cash flow of the financing activities.

The amendment suggests that it would meet the reporting requirement of including a reconciliation between the initial and final balances for liabilities arising from financing activities, although it does not set out a specific format.

These amendments apply to the financial years beginning 1 January 2017.

The Group is analysing the impact that the standard may have on the consolidated annual accounts.

IAS 12 (Amendment) "Recognition of deferred tax assets for unrealised losses":

The amendments to IAS 12 clarify when a deferred tax asset should be assigned for unrealised losses. The amendments clarify the accounting treatment of deferred tax when an asset is measured at fair value and that fair value is below the tax basis of the asset. They also clarify other aspects relating to accounting of assets for deferred tax.
These amendments apply to the financial years beginning 1 January 2017.

The Group is analysing the impact that the standard may have on the consolidated annual accounts.

IFRS 15 (Amendment) "Clarifications to IFRS 15" revenue from contracts with customers":

The IASB has amended IFRS 15 in order to:

- Clarify guidance for identifying performance obligations, accounting for intellectual property licences and the main assessment vs. agent (presentation of net ordinary income vs. gross).

- Include new, illustrative and modified examples for each of these areas of the guide.

- Provide additional practical resources related to the transition to the new standard.

These amendments do not modify the fundamental principles of IFRS 15, but clarify some of the more complex aspects of this standard. Amendments may be relevant to a variety of entities and should take into account how management assesses the impact of IFRS 15.

This amendment applies to the financial years beginning 1 January 2018 and is subject to adoption by the EU.

The Group is analysing the impact that the standard may have on the consolidated annual accounts as indicated above.

IFRS 2 (Amendment) "Classification and measurement of share-based payment transactions":

The amendment of IFRS 2, which was developed via the Interpretations Committee of the IFRS, clarifies how to account for certain types of share-based payment transactions. In this sense, it provides requirements for accounting for:

- The effects of vesting conditions and non-vesting conditions on the measurement of a cash-settled share-based payment;

- Classification of share-based payment transactions with net settlement features; and

- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendment is effective for the financial years beginning 1 January 2018 onwards, although early adoption is permitted.

The Group does not expect significant impacts from this amendment.

IFRS 4 (Amendment) "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts":

The amendments to IFRS 4, which were published by the IASB in September 2016, introduced two optional approaches for insurance companies:

- A temporary exemption until 2021 from IFRS 9 for entities that meet specific requirements (applied at the level of the entity submitting the information); and

- The "overlay approach" will provide all companies that issue insurance contracts the option to recognise in other comprehensive income – rather than in profit or loss for the period – the volatility that could arise when IFRS 9, "Financial Instruments" is applied before the new insurance contracts standard is published.

IFRS 4 (including any amendments that have been published now) will be overtaken by the next new standard in insurance contracts. Consequently, it is expected that both the temporary exemption and the "overlay approach" cease to apply upon entry into force of the new insurance standard.

The Group is analysing the impact that the standard may have on the consolidated annual accounts.

Annual Improvements of the IFRS 2014–2016 Cycle:

Amendments apply to IFRS 1, IFRS 12 and IAS 28 and to financial years beginning on 1 January 2018 in the case of amendments to IFRS 1 and IAS 28 and 1 January 2017 for the ones corresponding to IFRS 12, all subject to adoption by the EU. The main amendments refer to:

- IFRS 1, "First-time Adoption of International Financial Reporting Standards": Elimination of short-term exemptions for entities adopting IFRS for the first time.

- IFRS 12, "Disclosure of interests in other entities": Clarification on the scope of the Standard.

- IAS 28, "Investments in affiliates and joint ventures": Valuation of an investment in an affiliate or joint venture at fair value.

No impact from these changes are anticipated.

IAS 40 (Amendment) "Transfers of Investment Property":

This amendment clarifies that to transfer to or from investment properties there must be a change in use. To conclude whether there has been a change in use there must be an assessment of whether the property meets the definition of an investment property. This modification must be supported by evidence. The IASB confirmed that a change in intent alone is not sufficient to support a transfer.

These amendments shall apply to the financial years beginning 1 January 2018. Early adoption is permitted.

The Group is analysing the impact that the standard may have on the consolidated annual accounts.

IFRIC 22 "Transactions and anticipated consideration in foreign currency":

This IFRIC addresses how to determine the date of the transaction when the standard on foreign currency transactions (IAS 21) applies. The interpretation applies when an entity pays or receives consideration in advance for contracts denominated in foreign currency.

The date of the transaction determines the exchange rate used for the initial recognition of the asset, expense or income. The issue arises as IAS 21 requires using the exchange rate of the "transaction date" which is defined as the date the transaction qualifies for recognition for the first time. Thus, the question is whether the transaction date is the date the asset, income or expense is assigned initially, or the first date in which early consideration is paid or charged, resulting in an advance payment or deferred income.

The interpretation provides guidance for when a single payment/collection is made, as well as for situations where there are multiple payments/collections. The purpose of the guide is to reduce diversity in practice.

The amendment shall be effective for the financial years beginning 1 January 2018 onwards, although they may be applied before then.

The Group is analysing the impact that the standard may have on the consolidated annual accounts.

2.2 Consolidation principles

a) Subsidiaries

Subsidiaries are all those entities (including structured entities) over which the Group has control. The Group controls an entity when it is subject to or has rights to obtain variable returns due to its involvement with the company invested in and has the ability to use its power over it to include those returns. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are excluded from consolidation on the same date such control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary corresponds to the fair value of the assets transferred, the liabilities incurred with the previous owners and equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. For each business combination, the Group may choose to recognise any non-controlling share in the acquired one, at fair value or the proportionate share of the non-controlling interest in the assigned amounts of the identifiable net assets of the acquisition.

Costs related to the acquisition are assigned as expenses in the periods in which they are incurred.

If the business combination is achieved in stages, the carrying amount on the date of acquisition of the interest in the net equity of the acquired entity previously held by the acquirer – is remeasured at fair value at the date of acquisition; any profit or loss arising from this revaluation is assigned to the profit and loss account.

Any contingent consideration transferred by the Group is assigned at fair value at the acquisition date. Subsequent changes in the fair value of the contingent deemed as an asset or liability is assigned according to IAS 39 in results or as a change in other comprehensive income. The contingent consideration that is classified as net equity is not revalued and its subsequent settlement is accounted for under net equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary, the amounts reported by the subsidiaries to adapt to the Group's accounting policies have been adjusted.

b) Changes in ownership interests in subsidiaries without change in control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is to say, as transactions with owners in their capacity as such. In purchases of non-controlling interests, the difference between the fair value of the consideration paid and the relevant share acquired of the carrying amount of the net assets of the subsidiary is recorded in net equity. Profit or losses due to disposal of non-controlling interests are also assigned to net equity.

c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, recognising the change in income in the carrying amount. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an affiliate, joint venture or financial asset. In addition, any amounts previously assigned to other comprehensive income in relation to that entity is accounted for as if the Group had directly sold the related assets or liabilities. This could imply that the amounts previously assigned to other comprehensive income are reclassified to the profit and loss account.

d) Affiliates

Affiliates refer to all entities over which the Group has significant influence but does not control; it generally indicates the shareholding of 20% to 50% of the voting rights. Investments in affiliates are accounted for using the equity method. Under the equity method, the investment is initially assigned at cost and the carrying amount is increased or decreased to recognise the investor's interest in the results of the investment after the acquisition date. The Group's investment in affiliates includes goodwill identified on acquisition.

If the ownership interest in an affiliate is reduced but significant influence is maintained, only the proportionate interest of the amounts previously assigned to other comprehensive income is reclassified to results when appropriate.

The Group's interest in profit or losses after the acquisition of affiliates is assigned to the profit and loss account, and its interest in transactions after the acquisition in the other comprehensive income is assigned to other comprehensive income with the corresponding adjustment to the amount in the carrying amount of the investment. When the Group's interest in the losses in an affiliate equals or exceeds its holdings in it, including any other unsecured receivables, the Group does not recognise further losses, unless it had incurred legal or constructive obligations or made payments on behalf of the affiliate.

At each financial information reporting date, the Group determines whether there is any objective evidence that the value of the investment in the affiliate has been impaired. If so, the Group calculates the amount of the impairment loss as the difference between the amount recoverable from the affiliate and its carrying amount, and recognises the amount related to "the share of profit / (loss) of an affiliate" in the profit and loss account.

Profit and loss from upstream and downstream transactions between the Group and its affiliates are assigned to the Group's consolidated annual accounts only as long as they correspond to the interests of other investors in affiliates not linked to the investor. Unrealised losses are eliminated unless the transaction provides evidence of impairment loss of the transferred asset. The accounting policies of affiliates have been amended when it has been necessary to ensure consistency with the policies adopted by the Group.

Dilution profit and losses arising on investments in affiliates are assigned to the profit and loss account.

e) Joint agreements

Investments in joint agreements 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 of its scope.

2.3 Financial information by segments

The information on operating segments is presented in accordance with the internal information that is supplied to the most senior decision-making authority. The Board of Directors and the Executive Committee, which are responsible for allocating resources and assessing performance of the operating segments, have been identified as the most senior decision-making entities of the Group.

Financial information by segment is shown in Note 5.

2.4 Foreign currency transactions

a) Functional currency and presentation

Items included in the financial statements of each of the Group's entities are measured using the currency of the main economic environment in which the entity operates ("functional currency"). The functional currency for all Group companies is that of the country where they are located. The Mexican automotive entity, sold in 2016, had since 1 January 2015 the US dollar as its functional currency. This change was made prospectively, in accordance with IAS 21. The consolidated annual accounts are presented in euros, which is the functional and presentation currency of the parent company.

b) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations, in the case of revalued items. Profit and losses in foreign currency resulting from the settlement of these transactions and from the conversion to the closing exchange rates of assets and liabilities in foreign currency are assigned to the profit and loss account, unless deferred in other comprehensive income as qualified cash flow hedging and qualified net investment hedging. Profits and losses on exchange rate differences are presented in the consolidated profit and loss account statement on the "Exchange rate differences (net)" line.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between conversion differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Exchange rate differences related to changes in amortised cost are assigned to the profit and loss account, and other changes in value are assigned to other comprehensive income.

Exchange rate differences on non-monetary items, such as equity instruments held at fair value with changes in the results, are assigned to the profit and loss account as part of the profit or loss of fair value. Exchange rate differences on non-monetary items such as equity instruments classified as financial assets available for sale are included in other comprehensive income.

c) Group Entities

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy), whose functional currency is different from the presentation currency, are transformed into the presentation currency as follows:

(i) Assets and liabilities of each balance sheet are translated at the closing exchange rate in the balance sheet date;

(ii) Income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the dates of the transaction, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange rate differences are assigned to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are deemed as assets and liabilities of the foreign entity and translated at the closing exchange rate.

2.5 Property, plant and equipment

Property, plant and equipment assets are assigned at their cost less any depreciation and accumulated impairment losses, except for land, if any, which shall be net of impairment losses.

The historical cost includes expenses directly attributable to the acquisition of the items.

Subsequent costs are included in the carrying amount of the asset or assigned as a separate asset, as the case may be, only when it is probable that future economic profit associated with the item will flow to the Group and the cost of the item can be measured in a reliable manner. The carrying amount of the replaced part is written off. All other repairs and maintenance expenses are charged to the profit and loss account during the financial year in which they take place.

Land does not depreciate. Depreciation on other assets is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives:

	Years of 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 reviewed and adjusted if necessary at each balance sheet date.

When the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is immediately reduced to its recoverable amount (Note 2.9).

Profit and losses on the sale of property, plant and equipment assets are calculated by comparing the proceeds with the carrying amount and are included in the profit and loss account in the line "Other net profits / (losses)" (Note 27).

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

2.6 Borrowing costs

The costs for general and specific interests that are directly attributable to the acquisition, construction or production of qualifying assets, which necessarily require a substantial period of time before they are ready for their intended use, are added to the costs of these assets during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expenses.

2.7 Property investment

Investment properties comprise land and buildings (industrial buildings) owned that are held for obtaining results through their sale or lease. The items included under this heading are valued at acquisition cost less accumulated depreciation and impairment losses they may have suffered.

For the calculation of depreciation of property investment the straight-line method is used depending on the years of estimated useful life for the same stands between 30 and 50 years.

2.8 Intangible assets

a) Allowances

Allowances allocated to the subsidiaries according to the National Allocation Plan (Law 1/2005 of 9 March) are recorded as an intangible asset, valued at fair value (market value at the time of their allocation) with credit to deferred income.

The allowances acquired subsequently to meet the hedging requirements of the emission levels of gases produced by the consolidated companies are valued at acquisition cost.

Deferred income is credited to results (Other income) depending on the charge to expenses associated with emissions allowances received free of charge.

Expenses generated by the emission of greenhouse gases are recorded in accordance with the use of allowances, assigned or acquired, as these gases are released in the production process, crediting the corresponding provision account.

Allowances recorded as intangible assets are cancelled, as a counterpart of the provision for costs incurred by the emissions made at the time of delivery to the Administration to cancel their obligations.

b) IT applications

Software licences acquired are capitalised on the basis of the costs incurred to acquire them and setting them up to use the specific software.

Expenses related to the development or maintenance of software are expensed when incurred. Costs directly related to the production of identifiable and unique software products controlled by the Group, and which will possibly generate higher economic benefits than costs in more than one year are assigned as intangible assets. Direct costs include the costs of the staff developing software and an appropriate proportion of overheads.

Software, acquired from third parties or self-development, assigned as assets is amortised over its estimated useful live (4 to 8 years).

c) Research and development expenses

Research costs are assigned as an expense when incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are assigned as intangible assets when the project can be identified correctly and individually, it is likely it is going to be a success considering its commercial and technical feasibility, management intends to complete the project, it has the technical and financial resources to do so, there is the capability to use or sell the asset generating probable economic benefits and their cost can be reliably estimated. Other development costs are assigned as an expense when incurred. Development costs previously assigned as an expense are not assigned as an asset in a subsequent financial year.

Development costs with a finite useful life are amortised from the commencement of the straight-line commercial production of the product during the period it is expected to generate profits, but not exceeding five years.

Development assets are tested for impairment in accordance with IAS 36.

d) Trademarks and licences

Trademarks and licences acquired from third parties are presented at historical cost. They have a finite useful life and are carried at cost less accumulated depreciation. Depreciation is calculated by the straight-line method to allocate the cost of trademarks and licences over their estimated useful life.

2.9 Impairment losses of non-financial assets

Intangible assets that have an indefinite useful life are not subject to depreciation and are tested annually for value impairment, or more frequently in the case of changes in circumstances which indicate they may have suffered value impairment. Other assets subject to depreciation are subject to value impairment checks whenever any events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that the estimated recoverable amount is lower than the net carrying amount of the asset, an impairment loss is recorded against the consolidated profit and loss account, reducing the carrying value of the asset to its recoverable amount. The recoverable amount is the highest between the fair value of an asset less alienation costs and the value in use. In order to assess impairment losses, assets are grouped at the lowest levels for which there are cash inflows identified separately that are largely independent of the cash inflows from other assets or asset groups (cash generating units).

Impairment losses of non-financial assets (other than goodwill) are reviewed for possible reversal at each date on which financial information is presented.

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

Non-current assets (or disposal groups) are classified as assets held for sale when their value is to be recovered mainly through their sale, provided that the sale is considered highly likely. These assets are valued at the lower of the carrying amount and fair value less sale costs.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value with changes in the results, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value with changes in the results

Financial assets at fair value with changes in the results are financial assets held for trading. A financial asset is classified in this category if it is mainly acquired for the purpose of being sold in the short-term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

b) Loans and accounts receivable

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

c) Financial assets held for sale

Financial assets available for sale are non-derivatives that are either designated in this category or are not classified in any of the other categories. They are included as non-current assets unless they mature within 12 months after the date of the balance sheet or if the management intends to dispose of them within that period.

2.11.2 Recognition and assessment

Purchases and disposals of investments are assigned on the trade date, that is, the date in which the Group undertakes to purchase or sell the asset. Investments are initially assigned at fair value plus transaction costs for all financial assets not assessed at fair value with changes in the results. Financial assets assessed with changes in the results are initially assigned at fair value, and transaction costs are charged to the profit and loss account. Financial assets are written off in the balance sheet when the rights to receive cash flow from the investments have expired or been transferred and the Group has substantially transferred all the risks and benefits arising from ownership. Financial assets available for sale and financial assets at fair value with change in the results are subsequently accounted at fair value. Loans and accounts receivable are recorded at amortised cost using the effective interest rate method.

Profit or losses from changes in the fair value of the category of "financial assets at fair value with changes in the results" are presented in the profit and loss account statement under "other net profits / (losses)" in the period in which they originated. Dividend income from financial assets at fair value with changes in the results are assigned to the profit and loss account under "Other income" when the Group's right to receive payment is established.

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

When securities classified as available for sale are sold or impaired, the fair value adjustments accumulated assigned to net equity are included in the profit and loss account as "profit and loss of investment securities".

The interest of securities available for sale calculated using the effective interest rate method is assigned to the profit and loss account as part of other income. Dividends from net equity instruments available for sale are assigned to the profit and loss account as other income when the Group's right to receive such payments is established.

2.11.3 Compensation of financial instruments

Financial assets and liabilities are offset and presented by netting in the balance sheet when there is a legally enforceable right to offset the assigned amounts, and the Group intends to settle net in cash or to realise the asset and settle the liability simultaneously. The legally enforceable right should not be contingent depending on future events and must be enforceable in the normal course of business and in case of default, insolvency or bankruptcy of the company or the counterparty.

2.11.4 Impairment losses of non-financial assets

a) Assets at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets may have suffered impairment losses. A financial asset or group of financial assets is impaired, and a loss impairment occurs if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an "event that causes the loss"), and that event (or events) causing the loss have an impact on the estimated cash flow of the financial asset or group of financial assets that can be reliably estimated.

The impairment loss indications may include that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the likelihood of a bankruptcy situation or any other financial restructuring and when observable data indicates that there is a decrease in estimated flow that should be assessed, such as changes in payment terms or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is assessed as the difference between the carrying amount of the asset and the current value of estimated future cash flow discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is assigned to the consolidated profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for assessing any impairment loss is the current effective interest rate determined under the contract. As a practical measure, the Group can estimate the impairment loss based on the fair value of an instrument using an observable market price.

If in a subsequent period, the amount of the loss impairment decreases, and such a decrease can be objectively attributed to an event occurring after the impairment was assigned, the reversal of the previously assigned impairment loss is assigned to the consolidated profit and loss account.

2.12 Derivative financial instruments and hedging activity

Derivatives are initially assigned at fair value at the date the derivative contract is signed. After their initial recognition, they are re-assessed at fair value. The method to recognising the resulting profit or loss depends upon whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. In financial year 2015 the Group began contracting derivatives which were designated as cash flow hedges (Note 10).

At the inception of the transaction, the Group documents the relationship between the hedging instruments and the items hedged, as well as its objectives for risk management and the strategy for undertaking various hedging transactions. The Group also documents its assessment, both initially and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items.

The fair values of certain derivative instruments used for hedging purposes are disclosed in Note 10. The movements in the 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 maturity of the remaining hedged item is higher than 12 months and as a current asset or liability if the maturity of the remaining hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

a) Cash flow hedging

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are assigned to other comprehensive income. The profit or loss relating to the ineffective portion is assigned immediately in the profit and loss account under "Results on financial instruments at fair value".

Accumulated amounts in equity are reclassified to the profit and loss account in those periods in which the hedged item affects the results (for example, when the intended hedged sale takes place). The profit or loss on the effective portion of interest rate swaps that cover variable rate loans is assigned to the profit and loss account within "financial income / expenses". However, if the planned transaction which is hedged involves the recognition of a non-financial asset (for example, stocks or property, plant and equipment assets) profit and losses previously deferred in equity are transferred from equity and are included in the initial assessment of the cost of the asset. The deferred amounts are finally recorded in costs of goods sold, for stocks, or in amortisation, in case of property, plant and equipment assets.

When a hedging instrument matures or is sold, or when the requirements for hedge accounting are not met, any cumulative profit or loss in net equity at that time remains in equity and is assigned when the expected transaction is ultimately assigned to the profit and loss account. When the transaction expected is not expected to take place, the cumulative profit or loss in net equity is immediately transferred to the profit and loss account.

b) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting and are assigned at fair value with change in the results. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are assigned immediately in the profit and loss account.

2.13 Inventories

Inventories are valued at cost or net realisable value, whichever is lower. The cost is mainly determined by the average method. The cost of finished goods and goods in progress includes the costs of raw materials, direct labour, other direct costs and manufacturing overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the applicable variable selling costs. Obsolete or slow-moving items are reduced to their realisable value.

2.14 Trade accounts receivable

Trade accounts receivable are amounts due from customers for sales of goods or services made in the ordinary course of business. If debt is expected to be collected in one year or less (or in the normal operating cycle, if it is longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

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

Financing through discounting expenses is not written off under the customers' heading until collection thereof, being recorded as bank financing. Moreover, certain contracts with banking entities are carried out, through which all risks and benefits are transferred, as well as control of accounts receivable. In these cases, the receivables are written off the balance sheet at the time of the risks and benefits transfer to the bank.

To cover certain customer default risks, insurance default risk contracts which hedge default by paying insurance premiums are arranged.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits in credit institutions, other short-term high liquidity investments with an original maturity of three months or less and bank overdrafts. On the balance sheet, bank overdrafts are classified as external funds in current liabilities.

2.16 Share capital

Common shares are classified as net equity.

Incremental costs directly attributable to the issue of new shares are presented in net equity as a deduction, net of tax, from the proceeds.

When any Group company acquires Company shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from net equity attributable to holders of equity instruments of the Company until cancellation, new issue or disposal. When these shares are subsequently reissued, all amounts received, net of any incremental cost of the directly attributable transaction and the corresponding effects of income taxes, is included in net equity attributable to Company holders.

2.17 Trade accounts payable

Trade payables are obligations to pay for goods or services acquired from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or within the normal operating cycle, if it is longer). Otherwise, they are presented as non-current assets.

Trade payables are assigned initially at fair value and subsequently measured at amortised cost using the effective interest rate.

2.18 External funds

External funds are initially assigned at fair value less any transaction costs incurred. Subsequently, external funds are valued at amortised cost; any difference between the amount received (net of transaction costs) and the amortised value is assigned to the profit and loss account during the amortisation period of the external funds using the effective interest rate method.

External funds are classified as current liabilities unless the Group has the unconditional right to defer settlement for at least 12 months after the balance sheet date.

2.19 Current and deferred taxes

The parent company has filed tax returns consolidated with certain subsidiaries (Note 30).

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

The current tax expense is calculated based on the legislation adopted or about to the adopted at the balance sheet date in the countries in which the Company and its subsidiaries operate and generate positive tax bases. Management periodically assesses the positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and, if necessary, establishes provisions based on the amounts expected to be paid to the tax authorities.

Deferred taxes are assigned due to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect the accounting profit nor taxable profit or tax loss. Deferred tax is determined using tax rates (and laws) that have been adopted or about to be adopted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are assigned to the extent that it is probable that there will be sufficient future taxable profits against which to offset the temporary differences. In the case of investment tax credits and deductions for R&D, the counterpart of the amounts assigned is the deferred Income account. The accounting allocations, as a lesser expense, is accrued over the amortisation term of the property, plant and equipment and R&D expenses that have generated the tax credits.

Liabilities are assigned as deferred taxes on taxable temporary differences associated with investments in subsidiaries, affiliates and joint arrangements, except for those deferred tax liabilities for which the Group can control the date of the reversal of temporary differences and it is probable that these will not reverse in the foreseeable future. Usually the Group is not able to control the reversal of temporary differences for affiliates. It is not assigned only when there is an agreement that grants the Group the ability to control the reversal of the temporary difference.

Assets for deferred taxes are assigned for deductible temporary differences arising from investments in subsidiaries, affiliates and joint agreements only to the extent that it is probable that the temporary difference will reverse in the future and it is expected that there will be sufficient taxable profit against which the temporary difference can be used.

Deferred tax assets and deferred tax liabilities are offset if, and only if, there is a legally recognised right to offset the assets from current tax assets against current tax liabilities and when deferred tax assets and deferred tax liabilities are derived from taxes on income related to the same fiscal authority that are incumbent on the same taxable entity or taxable entities, who intend to settle current tax assets and liabilities on a net basis.

2.20 Employee benefits

a) Pension obligations

Various pension plans are active in certain Group companies, in all cases financed via defined contributions to external Voluntary Social Welfare Entities (EPSV). This plan includes the workers from Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.A. (Sociedad Unipersonal) (1,426 partners in 2016 and 1,493 partners in 2015) that have voluntarily joined the Entity.

A defined contribution plan is a pension plan in which fixed contributions are made into a separate entity on a contractual basis, to which the Group has no obligation, legal or constructive, to make additional contributions if the fund does not hold enough assets to pay all employees the benefits relating to services provided in the current and prior financial years.

The company does not assume any risk for the capitalisation period of contributions, nor does it guarantee a minimum interest to members.

The contributions are assigned as employee benefits when accrued.

b) Severance pay

Severance benefits are paid to employees following the Group's decision to terminate their employment contract before the normal retirement age or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises these benefits on the first of the following dates: a) when it has demonstrably undertaken to terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or b) when the entity recognises costs for a restructuring within the scope of IAS 37 and this involves severance pay. When an offer to encourage voluntary resignation of employees is made, severance pay is measured based on the number of employees expected to accept the offer. Benefits that are not paid within twelve months from the balance sheet date are discounted to their present value.

c) Variable remuneration plans

The Group recognises a liability and an expense in some companies as variable remuneration based on formulas that take into account the progress and results of the businesses. The Group recognises a provision when it is under contractual obligation or, for any other reason, such remuneration is required.

2.21 Provisions

Provisions for specific risks and expenses are assigned when:

(i) The Group has a present obligation, legal or implied, as a result of past events;

(ii) An outflow of funds is likely to be required to settle the obligation; and

(iii) The amount can be estimated reliably.

No provisions for future operating losses are assigned.

Where there is a number of similar obligations, the likelihood that an outflow for settlement is required is determined by considering the type of obligations as a whole. Provisions are assigned even if the probability of an outflow with respect to any item included in the same type of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is assigned as interest expense.

2.22 Revenue assignment

Ordinary revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods sold, net of discounts, returns and value added tax. Revenue is assigned when it can be measured reliably, when it is probable that the entity will receive future economic benefit and when certain conditions for each of the Group's activities described below are achieved. The Group bases its return estimates on historical results, considering the type of customer, the type of transaction and the specific circumstances of each agreement.

a) Sales of goods

Sales of goods are assigned when a Group entity has transferred to the buyer the significant risks and rewards of ownership of property, and does not retain any involvement in the current management of the goods sold in the degree usually associated with ownership, nor does it retain effective control thereof.

b) Sales of services

Sales of services are assigned to the accounting period in which the services are provided, in reference to completion of the specific transaction assessed on the basis of the actual service provided as a percentage of total service to be provided.

c) Income from interest

Income from interest is assigned using the effective interest rate method. When an account receivable suffers impairment loss, the Group reduces the carrying amount to its recoverable amount by discounting the estimated future cash flow at the original effective interest rate of the instrument, and continues apply the discount less interest income. Interest income on loans that have suffered impairment losses is assigned when cash is collected or on the basis of cost recovery when conditions are guaranteed.

d) Dividend income

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

2.23 Leases

Financial leases

Property, plant and equipment leases in which the Group substantially holds all the risks and rewards of asset ownership are classified as financial leases. Financial leases are capitalised at the beginning of the lease at the lower of fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and the financial charge. The corresponding lease obligations, net of financial charges, are included in long-term accounts payable. The part corresponding to the financial charges is charged to the profit and loss account over the lease period so that a constant periodic rate of interest on the debt pending amortisation in each period is obtained. Property, plant and equipment acquired under finance leases are amortised over the shorter period of the useful life of the asset and the lease period.

Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made for operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the lease period.

2.24 Distribution of dividends

The distribution of dividends to shareholders is assigned, if outstanding, as a liability in the Group's consolidated annual accounts for the financial year in which dividends are approved by the General Shareholders' Meeting and/or the Board of Directors of the Parent company.

2.25 Environment

Costs arising from business actions aimed at protecting and improving the environment are expensed in the financial year in which they are incurred. When these expenses involve additions to property, plant and equipment, whose purpose is to minimise environmental impact and protect and improve the environment, they are recorded as increased value for the property, plant and equipment asset.

The expenses generated by the emission of greenhouse gases (Law 1/2005 of 9 March) are recorded in accordance with the use of allowances, assigned or acquired, as these gases are released in the production process, crediting the corresponding provision account.

3. Management of financial risk

3.1 Financial risk factors

The Group's activities are exposed to various financial risks: market risk, credit risk, liquidity risk and risk of changes in prices of raw materials. The Group's global risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is controlled by the Financial Departments of each of the companies under the supervision and coordination of the Group's Financial Management and in accordance with the policies approved by the Board of Directors. The operating units of the different companies identify, assess and hedge financial risks in close collaboration with the Group's General Management.

a) <u>Market risk</u>

(i) Exchange rate risk

The Group operates internationally and is therefore exposed to foreign exchange rate risk due to its transactions in foreign currencies, especially in the US dollar. The exchange rate risk arises from future commercial transactions and the assets and liabilities recognised.

The exchange rate risk arises when future commercial transactions or assets or liabilities recognised are denominated in a currency other than the functional currency of the entity performing the transaction. The Management team has established an exchange rate risk management policy for foreign currency against the functional currency. The exchange rate risk arises mainly from sales made in US dollars, which during financial year 2016 amounted to 74 million euros, without taking into account discontinued operations (134 million euros in 2015) and purchases of raw materials and other supplies during 2016 which represented an expenditure of 16 million euros (23 million euros in 2015).

The Group uses derivative financial instruments (exchange rate hedges) to hedge or reduce the risk of exchange fluctuations in the operations described. While these are taken out with the clear objective of hedging this risk, these instruments do not qualify for hedge accounting.

During financial year 2016, the amount of these contracts amounted to 49 million US dollars (USD) (79 million US dollars in 2015). Forward foreign currency purchase and sale contracts held by the Group at 31 December 2016 are detailed in Note 10.

If as of 31 December 2016, the euro had weakened/strengthened by 5% against the US dollar, while the value of other variables remained constant, profit after tax for the financial year would have been 265 thousand euros (748 thousand euros in 2015) higher / lower, mainly due to exchange rate differences on conversion to euros of the customer receivables denominated in US dollars.

The Group does not consider exchange rate variations of net investments abroad as a significant risk exposure, since even though the assets held in these companies amounted to 65 million euros at 31 December 2016 (30.6 million euros at 31 December 2015 without taking into account those associated with the automotive business, which has been classified as a discontinued operation), those assets are financed by foreign currency liabilities and the net equity of these companies is not relevant.

(ii) Interest rate risk of external funds

The Group's main interest rate risk arises from the long-term debt with variable rates, which exposes the Group to cash flow interest rate risk. During 2016 and 2015 the Group's loans at variable interest are mostly denominated in euros. The Management team maintains a policy of permanent monitoring of the development of the same and on the effect of a hypothetical change in interest rates in the annual accounts of the Group.

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

The fixed financial rate debt is recorded at amortised cost. Therefore, they are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flow will fluctuate due to a change in market interest rates. At 31 December 2016 around 12.9% of the Group's debt is at fixed rate (12% of the debt at 31 December 2015).

Moreover, in financial year 2015 the Group began to manage part of its cash flow interest rate risk through variable to fixed interest rate swaps. Under these swaps, the Group agrees with other parties to exchange, at certain intervals (usually on a quarterly basis), the difference between the amounts of interest at fixed rate and variable rate by reference to the amounts of the notional principal agreed.

Instruments used by the Group

Those swaps currently in place cover approximately 9% (5% at 31 December 2015) of the principal of variable rate loans. The contracts require the settlement of net interest receivable or payable every 90 days. The settlement dates coincide with the dates on which interest accrues on the underlying debt and settlement occurs on a net basis.

Sensitivity

Profit or loss is sensitive to the direct effects of a change in the rates on financial instruments subject to variable interest assigned to the consolidated balance sheet. The sensitivity of the profit and loss account of the Group to a variation of half a percentage point in interest rates implies, in 2016, an increase/reduction of around 23% (19% in financial year 2015) on current costs and would be approximately 14% of financial expenses for 2016 (15% in 2015).

b) <u>Credit risk</u>

Credit risk arises from cash and equivalent liquid assets, derivative financial instruments and deposits with banks and financial institutions as well as from credit exposure to customers, including trade receivables and agreed transactions. For banks and financial institutions only parts classified according to independent valuations with a minimum rating of "A" are accepted, thus credit risk arising from cash amounts as well as financial assets and deposits is considered low given the credit quality of the institutions with which the Group operates.

Regarding the risk from sales operations, the Group has policies in place to ensure that virtually all sales are carried out hedging the credit risk and ensuring collection.

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

To accept an order its risk must be hedged by CESCE. Otherwise the order is suspended pending other possible risk hedges such as: customer guarantees (confirmed letter of credit, confirming, etc.), factoring /forfeiting and, lastly, advanced payment. In addition, the Group transfers on a non-recourse basis part of their accounts receivable to various financial institutions, for which reason, since it transfers a significant portion of the risks and benefits, it proceeds to write off from customer balances the amounts of the aforementioned accounts receivable transferred. At 31 December 2016 the Group has written off an amount of 33,422 thousand euros under various non-recourse factoring contracts (25,817 thousand euros in 2015). The limit of these contracts is 55.7 million euros (52.2 million euros at 31 December 2015).

In the seamless Pipe segment, 86% of sales have been insured by CESCE (83% in 2015), with the insurance coverage being transferred by non-recourse factoring contracts to financial institutions by 59% of sales (36% in 2015), covered by customer warranties through letters of credit, 5%, (8% in 2015), with 8% charged in advance (6% in 2015) and the remaining 1% (3% in 2015) was charged differently.

In the Distribution segment 92% of sales have been insured by CESCE (90% in 2015), with the insurance coverage being transferred by non-recourse factoring contracts to financial institutions by 40% of sales (25% in 2015), covered by customer warranties through letters of credit, 7%, (7% in 2015), and the remaining 1% was charged in advanced (3% in 2015).

Thus, the Group has no significant concentrations of credit risk since such risk is determined mainly by the percentage not covered in the event of insolvency, as agreed with each insurance company. With CESCE the coverage for commercial risk is 95% (95% in 2015) and 99% of political risk. Regarding non-recourse factoring, all of the receivables are sold, so that the Group does not retain any default risk.

The time limit to inform CESCE of a possible default is 90 days. During this period, the Group manages the collection of amounts due and, should it not reach a satisfactory payment agreement, then proceeds to report the default to the corresponding insurance company and the allocation of the provision for insolvencies of the uncovered part of debt.

c) Liquidity risk

A sound management of liquidity risk implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the capacity to settle market positions.

Given the dynamic nature of the business of each of the Group companies, the financial departments of each unit, under the coordination of the Group's General Management, aim to maintain flexibility in financing through the availability of committed credit lines. In addition, the Group uses liquid financial instruments (non-recourse factoring through which the risks and benefits of receivables are transferred) to maintain liquidity levels and the structure of working capital required in its business plans.

The comprehensive control of working capital (current assets less current liabilities), the absence of excessive concentration of risk in any financial institution and ongoing monitoring of debt levels and cash generation can adequately control the liquidity risk of the business.

(In thousands of euros)

The Management team monitors the forecasts of the Group's liquidity reserve, which includes the availability of credit (Note 20), cash and cash equivalents (Notes 12 and 13) and current financial assets (Note 9) depending on expected cash flow.

The liquidity reserve as of 31 December 2016 and 2015 is as follows:

	2016	2015
Liquidity reserve		
Cash and cash equivalents (Note 13)	7,620	26,955
Other current financial assets (Note 9)	520	5,392
Unused credit lines (Note 20)	55,173	93,965
Liquidity reserve	63,313	126,312
Net outside funds		
External funds (Debts with credit institutions and other debts) (Note 20)	208,925	203,386
Cash and cash equivalents (Note 13)	(7,620)	(26,955)
Other current financial assets (Note 9)	(520)	(5,392)
Net outside funds	200,785	171,039

The table below displays an analysis of the Group's financial liabilities, grouped by maturity, and which will be settled in accordance with the terms pending at the balance sheet date up to the due date stipulated in the contract. The amounts displayed under the heading correspond to the cash flow (including interest that shall be paid in the case of debts with credit institutions) stipulated in the contract without any deduction.

	Less than 1 years	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 31 December 2016					
Debts to credit institutions	64,709	53,075	82,267	950	201,001
Other outside funds	1,753	2,106	6,071	16,396	26,326
Other accounts payable	112,467	7,040	19,006	9,234	147,747
At 31 December 2015					
Debts to credit institutions	47,681	45,352	103,402	3,256	199,691
Other outside funds	879	1,677	4,822	16,519	23,897
Accounts payable	104,690	6,653	20,527	16,134	148,004

In order to adapt the expected cash generation of the Group for the coming years with its debt repayment obligations, the company is negotiating with its main banks to syndicate financing with a minimum maturity of 5 years. This syndicated loan would reorder all long-term bank loans, except those of the EIB (27.9 million euros), and all short and long-term credit policies and would be structured into three tranches, all maturing after the end of fifth year: tranche A would amount to approximately 114.2 million euros, with repayments increasing until year 5 (starting to be repaid six months after the signature for an approximate amount of 2.5 million euros, in 2018 for an approximate amount of 10 million euros and 12 million euros for financial year 2019); a B tranche of 70 million euros, which would be a bullet with a maturity of 5 years and which would have the early repayment of the proceeds from the sale of the Almesa properties when it occurs (notes 8 and 14); and a C revolving tranche of 30 million euros with an obligation to repay on 31 December of each year. With this refinancing, the Group would continue to maintain its liquidity of 63.3 million euros at the end of 2016 (since it would refinance 100% of the available limits), and would reduce its debt repayment obligations to 2.5 million during the first year (in relation to the debt to be syndicated, without considering the repayment of the EIB specified below).

At the date of preparation of these Consolidated Annual Accounts, the Group's Management has signed an agreement (Summary of indicative terms and conditions - "term-sheet") with the coordinating banks which regulate the new financing agreements. This agreement, which was signed in early March 2017, has been offered to the rest of banking entities for their commitment prior to signing the new financing agreement. Currently, several banking entities have joined, so that the entities agreeing to these conditions represent approximately 53% of the total debt. The remaining financial institutions, although they did not commit before the date of preparation, are negotiating with the Group's Management with the intention of becoming part of the new financing agreement.

This agreement is subject to the usual clauses and conditions in these debt reorganisation processes, notably:

- The approval by the internal decision-making bodies of the credit institutions (obtained in the percentages mentioned above).
- Absence of any adverse material change that could impact the economic situation of the Group.
- Formalisation of the operation.

The Group's Management expects to obtain the commitment of the entities that have not adhered to this "term sheet" in the coming days, so that the Group's debt reorganisation operation will be formalised in the coming weeks.

This financing operation would entail the obligation to comply with certain financial obligations or covenants, which will begin to be applied as of the second year of the effective date. In any case, these obligations will be established based on the cash generation expected for the coming years.

In addition, the group is negotiating with the EIB for the adaptation of the current repayment schedule of its long-term loan to adapt to the Group's cash generation. The current proposal would imply that the current repayment of 11.25 million euros in 2017 would be reduced to 5 million euros. There was also a proposal to modify the existing covenants to the same covenants proposed for syndicated financing, with a non-implementation period of one year. The approval of this modification of the terms of the EIB loan is expected at the same time as the approval of the terms of the syndicated loan of the other banks.

As a result of all of the above, short-term debt repayment obligations of 59.9 million euros that appear on the balance sheet at the end of 2016 would be reduced to just 7.5 million euros, while the liquidity of the beginning of year would remain at 63.3 million euros.

In addition, the Group has reached a pre-agreement with a venture capital entity to obtain additional financing amounting to 10 million euros. This pre-agreement, recently reached, is subject to the formalisation of the syndicated loan.

In addition, the Group has the possibility of accessing additional financing through the issuance of debentures (non-convertible bonds) amounting to 34.5 million euros under a debt issuance programme approved during the month of December 2015 (Note 20).

Therefore, once the reorganisation process being carried out with financial institutions is explained, the analysis of the liquidity management carried out by the Group's General Management does not contemplate liquidity pressures that cannot be covered by the current or future financial means available to the Group.

In this sense, while the Group has a negative working capital of approximately 40 million, with the reorganisation of the financial debt explained above, this mismatch would be offset and, therefore, does not imply any problem in the face of the assessment of going concern principle. The Group's General Management has carried out a thorough analysis of both the strategic plan and the liquidity and financing situation of the Group and, based on the above, the current consolidated annual accounts are presented. This way, the new financial situation has been structured to align with the Group's cash generation in the coming years in line with that set out by the strategic plan implemented. With this, no liquidity pressures or cash problems in the coming months are expected and the new structure will enable the Group to meet its banking covenants and generate sufficient cash to recover the assets of the consolidated balance sheet.

d) Risk of changes in commodity prices

Regarding the risk of price fluctuation of commodities, mainly scrap metal, Group companies are covered from this typical risk by diversifying their markets and suppliers, with permanent and timely monitoring of supply and demand, and management of stock volumes.

While scrap is not a valued commodity, its market price is fairly even globally. Scrap metal consumption is approximately 1.27 kg of scrap per kg of pipes sold, with an average purchase price of 196.58 euros/t in 2016 (225.81 euro/t in 2015) representing between 13.96% and 17.57% of the selling price of pipes (between 14.4% and 16.80% in 2015).

The price throughout 2016 has fluctuated between 225 euro/t and a minimum of 161 euros/t (266 euros/t - 157 EUR/t in 2015). The fluctuation of scrap prices is passed on to the customer to the extent possible.

A 1% variation in the purchase price of scrap would imply an impact between 0.14% and 0.18% (between 0.14% and 0.17% in 2015) in the selling price and 290 thousand euros (402 thousand euros in 2015) in the profit and loss account.

3.2 Fair value estimate

The following table presents an analysis of the financial instruments that are measured at fair value, classified using the equity method. The different levels have been defined as follows:

- Listed prices (unadjusted) on assets markets for similar assets and liabilities (Level 1).

- Different data to the listed prices included in level 1 observable, either directly (i.e. the reference prices) or indirectly (i.e. as derived from prices) (Level 2).

- Data for the asset or liability not based on observable market data (i.e. non-observable inputs) (Level 3).

(In thousands of euros)

The following table shows the assets and liabilities of the Group at fair value at 31 December 2016 and 2015:

2016 Financial Year

	Level 1	Level 2	Level 3	Total 31.12.16
ASSETS				
Assets at fair value with changes in the results				
- Derivatives	-	-	-	-
TOTAL ASSETS AT FAIR VALUE	-	-	-	-
LIABILITIES				
Liabilities at fair value with changes in the results				
- Derivatives	-	1,044	-	1,044
Derivatives used for hedging				
- Interest rate barter transactions	-	61	-	61
TOTAL LIABILITIES AT FAIR VALUE	-	1,105	-	1,105

2015 Financial Year

	Level 1	Level 2	Level 3	Total 31/12/2015
ASSETS				
Assets at fair value with changes in the results				
- Derivatives	-	24	-	24
TOTAL ASSETS AT FAIR VALUE	-	24	-	24
LIABILITIES				
Liabilities at fair value with changes in the results				
- Derivatives	-	114	-	114
Derivatives used for hedging				-
- Interest rate barter transactions	-	54	-	54
TOTAL LIABILITIES AT FAIR VALUE	-	168	-	168

The fair value of financial instruments traded in active markets is based on market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price. These instruments are included in Level 1. A market is considered active when quoted prices are readily and regularly available from a stock exchange, financial intermediaries, a sector-specific institution, pricing service or regulatory agency, and those prices reflect current market transactions that occur regularly, between parties acting under conditions of mutual independence.

The fair value of financial instruments that are not listed in an active market is determined using valuation techniques. Group companies use a variety of methods such as discounted cash flow estimates and make assumptions that are based on existing market conditions at each balance sheet date. These methods include quoted market prices or prices set by financial intermediaries for similar instruments. The fair value of interest rate swaps is calculated as the present value of estimated future cash flow based on estimated interest rate curves. The fair value of forward exchange rate contracts is determined using forward exchange rates quoted in the market at the balance sheet date. It is assumed that the carrying value of trade payables approximates its fair value. The fair value of financial liabilities for the purpose of financial reporting is estimated by discounting the future contractual cash flow at the current market interest rate that is available to the Company for similar financial instruments.

If all the data necessary to assess a financial instrument at fair value are observable in the market, the financial instrument is included in Level 2.

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

3.3 Capital risk management

The Group's objectives regarding capital management are to safeguard its ability to continue as a going concern and provide a return for shareholders. For this purpose it tries to keep an optimal capital structure by reducing the cost thereof.

In order to maintain or adjust the capital structure, the Group may use the amount of dividends payable to shareholders, and may sell assets to reduce debt, among others.

The Group monitors capital according to the leverage ratio, in line with industry practice. This ratio is calculated as external funds and other liabilities less cash and equivalents and other current financial assets divided by total capital. Total capital is calculated as net equity, as shown in the consolidated accounts, plus the item explained above.

(In thousands of euros)

Leverage ratios as of 31 December 2016 and 2015 are as follows:

	2016	2015
External funds and other liabilities (*)	260,305	265,213
Less: Cash and equivalents and other current financial assets	(8,140)	(32,347)
	252,165	232,866
Net equity	181,943	244,175
Total capital	434,108	477,041
Leverage ratio	58.09%	48.81%

(*) "External funds and other liabilities" include long and short-term external funds (Note 20), suppliers of property, plant and equipment, creditors under finance leases, debts to government agencies for subsidised loans and debts with Public Administrations (Note 19).

4. Accounting estimates and calculations

Estimates and judgements are continually assessed and are based on historical experience and other factors, including expectations of future events that are deemed reasonable under the circumstances.

4.1 Relevant accounting estimates

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, very rarely equal the actual results. The estimates and judgements that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are explained below.

1. Asset impairment

As described in Note 6, the Management of the Group analysed the impairment of assets based on the existing business plan for the different CGUs and the Group, which was updated at the end of the financial year. The preparation of this business plan includes estimates relating to the development of the Group's activities. Among said estimates are the main variables of the income statement. In this sense, a business plan was formulated with realistic estimations, ignoring particularly substantial or hardly achievable business growth. Yet, the business plan includes many estimate variables that were considered both in the asset impairment analysis as well as the tax credit recovery analysis (Note 21).

2. Resulting fair value in a business combination

In business combinations the Group, at the date of acquisition, classifies or designates the identifiable assets acquired and liabilities assumed as necessary and on the basis of contractual agreements, economic, financial and operating policies conditions or other relevant conditions existing at the date of acquisition so as to subsequently value the identifiable assets acquired and the liabilities assumed at their fair values at the date of acquisition.

As a result of the business combination described in Note 28, the Group's Management calculated the fair value of property, buildings and machinery based on appraisals performed by independent experts. Additionally, and as opposed to assessing fair value, an analysis of the fair value of the assets acquired using discounted cash flow was carried out. This analysis incorporates estimates with respect to future business, although the result obtained from it is similar to the appraisals after incorporating the corresponding sensitivity analysis (Note 28). This analysis led to a gross increase in value amounting to 18.4 million euros.

3. Tax on profits and assets by deferred tax

The legal status of the tax legislation applicable to certain Group companies implies that there are estimated calculations and an uncertain final quantification of the tax. The tax calculation is made based on the best estimates of Management according to the current tax legislation status and taking into account the expected evolution of the same (Note 30). When the final tax result is different from the amounts initially assigned, such differences will impact the tax on profits in the financial year in which it is determined.

The deferred tax assets are recorded for all deductible temporary differences, tax loss carry-forwards and deductions still to take effect for which it is likely that the Company and/or tax group to which they belong will have future tax gains that enable the application of these assets. In order to determine the amount of the deferred tax assets that may be recorded, the Directors of the parent company carried out a recovery analysis of the tax credit recorded in the balance sheet based on the taxable income estimated according to the Group's strategic plan, considering an estimated period of 10 years as well as the usage limitations of said tax credits, in compliance with the current tax regulations. The plan enables the recovery of the assigned tax credits to be fairly justified (Note 21).

4. Useful life of property, plant and equipment

The Group Management determines the estimated useful lives and the corresponding charges for amortisation for its factory and equipment. This estimate will increase/decrease the amortisation charge when the useful lives are inferior/superior to the previously estimated lives or will amortise or remove technically obsolete or non-strategic assets that have been abandoned or sold.

Annually, the useful lives assigned to the various assets of the Group are reassessed. In the analysis conducted in financial years 2015 and 2016 no significant changes in repayment terms were detected.

4.2 Significant judgements in applying accounting policies

The most significant judgements and estimates that have had to be taken into account in the implementation of accounting policies described in Note 2 are:

- Covenants. The Group is subject to compliance with certain covenants at year-end (Note 20). Prior to year-end, with the expectation of not meeting the ratios required in EIB loans, an agreement was reached to obtain a waiver. While the waiver granted releases from compliance with the ratios at 31 December 2016, compliance with ratios during 2017 is required. In this sense, there is a possibility that the agreed terms for financial year 2017 may not be met under current market conditions. However, the Group's Management believes that, based on the experience gained with the EIB and the discussions in negotiating the waiver at the end of 2016, new waivers will be obtained during 2017. In any case, exemption from compliance with the covenants at 31 December 2016 and the expectation, not only of new waivers, but also of sufficient liquidity availability, as detailed in Note 3.1.c), enable the Group to classify the debt in the long-term with the EIB since no liquidity or going concern problems are expected under current conditions and estimates.

- Monitoring Tubos Reunidos Premium Threads, S.L. (TRPT). The Group has a 51% investment in the Tubos Reunidos Premium Threads, S.L. (TRPT) subsidiary, which has been consolidated by the global integration method since it is considered that control over the subsidiary is maintained. In this regard, we have analysed aspects such as the partnership agreement, the relevant activity of the company, the management and exposure to existing business, managing the plant and costs of the same and others which have led to the conclusion that the control is in the hands of Tubos Reunidos Group.

- Density estimation of scrap metal for the physical inventory count on the volume calculation process. At year-end a physical inventory of scrap metal is carried out to estimate existing tonnes. This process is performed by calculating the volume of the existing scrap in the park. While calculating the tonnage is subject to the density of the scrap used in the volume calculation process, adjustments are performed during the financial year (when the stock is zero or near zero), while monitoring is also carried out depending on new purchases for a more adequate measuring and to provide greater reliability to the density to be used in the process of calculating the existing volume and tonnes.

- Estimate of provisions related to addressing complaints and probable or certain ongoing litigations or obligations arising from the Group's activities, notes 2.21 and 22.

5. Financial information by segments

The Board of Directors and the Executive Committee have been identified as the most senior decision-making entities of the Group. These bodies review the Group's internal financial reporting, evaluating its performance and allocating funds to the segments.

Management has determined the operating segments based on the structure of the reports examined by the aforementioned governing bodies.

Said governing bodies analyse the Group's business both geographically and in terms of products. In this way, operations are analysed from the perspective of three segments:

a) Seamless piping
c) Distribution (at 31 December 2016, this segment is considered as held for sale)
c) Automotive (segment sold during 2016)

Furthermore, the governing bodies analyse, through Other operations, the remaining activities/products (mainly the manufacturing of pressure parts for boilers and isometrics).

Although this operation does not meet the quantitative thresholds that IFRS 8 establishes to be considered an operating segment, it is presented as an additional segment as it is analysed in this way by the governing bodies.

These governing bodies evaluate the performance of the operating segments based chiefly on the earnings before interest, tax, depreciation and amortisation (EBITDA). This method of assessment does not include the effects of recurring expenses or expenses from isolated, atypical operations. The segmented information received by these bodies also includes financial revenue and expenditure and tax matters, although the latter are analysed together at the Group level.

(In thousands of euros)

a) Segmented information

The results by segment for the financial year ended 31 December 2016 are as follows:

	Seamless piping	Distribution (*)	Automotive segment	Others	Group
Total gross sales for the segment	220,259	24,223	37,815	-	282,297
Inter-segment sales	(25,331)	(5,830)	(4,170)	-	(35,331)
Sales	194,928	18,393	33,645	-	246,966
EBITDA	(15,512)	(2,357)	3,180	24	(14,665)
Operating profit	(39,703)	(5,875)	711	24	(44,843)
Net financial costs	(6,797)	(142)	(505)	-	(7,444)
Profit before tax	(46,500)	(6,017)	206	24	(52,287)
Tax on earnings	(7)	(1,827)	(116)	-	(1,950)
Other results (Note 14)	-	(952)	3,952	-	3,000
Minority interests (Note 18)	1,108	-	(45)	-	1,063
Profit for the period	(45,399)	(8,796)	3,997	24	(50,174)

The results by segment for the financial year ended 31 December 2015 are as follows:

	Seamless piping	Distribution	Automotive segment	Others	Group
Total gross sales for the segment	304,353	30,626	64,440	-	399,419
Inter-segment sales	(26,288)	(12,405)	(8,248)	-	(46,941)
Sales	278,065	18,221	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 tax	(22,576)	(2,397)	2,949	24	(22,000)
Tax on earnings	7,539	-	(751)	-	6,788
Minority interests	123	-	(1,099)	-	(976)
Profit for the period	(14,914)	(2,397)	1,099	24	(16,188)

(*) As part of the results of the distribution segment, a net amount of 2,218 thousand euros (2,957 thousand euros before tax) was recorded corresponding to a deterioration of the property that has been collected as a result of continuing operations.

(In thousands of euros)

Other items from the segments included in the profit and loss account for the period are as follows:

	2016				2015			
	Seamless piping	Distribution	Automotive	Group	Seamless piping	Distribution	Automotive	Group
Amortisation of property, plant and equipment (Note 6)	21,085	278	2,231	23,594	20,774	375	3,512	24,661
Amortisation of intangible assets (Note 7)	2,985	283	238	3,506	2,733	297	524	3,554
Amortisation of property investments (Note 8)	121	-	-	121	12	-	-	12
Allocation/(Reversion) for fixed asset impairment (Note 6)	-	(*) 2,957	-	2,957	-	-	-	-
Allocation/(Reversion) (net) for impairment of inventories (Note 12)	(416)	193	-	(223)	(1,914)	(237)	-	(2,151)
(Net) impairment losses for trade receivable and commercial guarantees (Notes 11, 22 and 26)	(392)	(66)	-	(458)	1,556	(662)	(5)	889

(*) This impairment corresponds to industrial buildings that are being used in the distribution segment but which will not be sold in the sales process described in Note 14. In the consolidated profit and loss account it has been classified under continuing operations.

The transactions between segments are carried out on usual commercial terms.

The assets and liabilities of the segments at 31 December 2016 and the investments in property, plant and equipment during the financial year ending on that date are as follows:

	Seamless piping	Distribution	Automotive segment	Others	(*) Consolidation adjustments	Group
Assets	694,570	(**) 19,552	-	196	(142,364)	571,954
Assets held for sale	-	7,025	-	-		7,025
Total assets	694,570	26,577	-	196	(142,364)	578,979
Liabilities held for sale	-	4,625	-	-		4,625
Other liabilities	508,762	12,777	-	6	(129,134)	392,411
Investments in property, plant and equipment (Notes 6 and 7)	25,340	47	2,846	-	-	28,233

(*) These consolidation adjustments essentially correspond to eliminations of commercial loans and balances between Group companies.

(**) Mainly industrial buildings of the distribution segment that will remain in the Group once the sales process described in note 14 is completed.

(In thousands of euros)

The assets and liabilities of the segments at 31 December 2015 and the investments in property, plant and equipment during the financial year ending on that date are as follows:

	Seamless piping	Distribution	Automotive segment	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 property, plant and equipment (Notes 6 and 7)	32,674	57	4,660	-	-	37,391

(*) These consolidation adjustments essentially correspond to eliminations of commercial loans and balances between Group companies.

The information provided in this Note covers all assets (excluding investments in subsidiaries eliminated in consolidation) and liabilities of each of the segments according to the balance sheets of each of the Group companies included in each segment.

b) Information on geographic areas and clients

All of the Group's business segments operate in 3 main geographic areas, although they are managed globally.

Spain is the Company's country of origin, which is, in turn, the headquarters of the Group's main operating companies.

The Group's sales, allocated based on the country in which the client is located, are mainly carried out in the following markets:

	2016	2015
Sales		
Spain	56,858	67,420
Rest of European Union	79,899	101,662
Rest of the World	110,209	183,396
Total sales	246,966	352,478

(In thousands of euros)

The Group's assets are located in the following countries:

	2016	2015
Total assets		
Spain	513,753	591,246
Rest of European Union	-	-
Rest of the World	65,226	50,569
Total assets	578,979	641,815

Virtually all investments in tangible assets and other intangible assets have been made in plants located in Spain, except for those investments in the company RDT, Inc (Note 28).

Revenue from a client never exceeds 10% of the total Group revenue.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016
(In thousands of euros)

6. Property, plant and equipment

The details and movements of the various property, plant and equipment categories are shown in the table below:

2016 Financial Year

	Land and construc-tions	Technical installations and machinery	Other installations, tools and furniture	Under construction and advances	Other fixed assets	Total
COSTS						
Initial balance	186,902	593,679	31,765	13,547	27,414	853,307
Additions	1,354	12,884	2,582	4,897	1,948	23,665
Business combinations (Note 28)	10,816	26,007	-	-	-	36,823
Withdrawals	(2,994)	(4,680)	(1,290)	(3)	(920)	(9,887)
Transfers	-	12,764	373	(13,566)	429	-
Exchange differences	694	1,428	(11)	(3)	(13)	2,095
Transfer to assets held for sale (Note 14)	(7,093)	(53,675)	(8,586)	(387)	(5,177)	(74,918)
Final balance	189,679	588,407	24,833	4,485	23,681	831,085
AMORTISATIONS						
Initial balance	56,614	403,882	9,119	-	17,100	486,715
Allocations	2,302	20,477	360	-	455	23,594
Withdrawals	(666)	(3,934)	(186)	-	(37)	(4,823)
Exchange differences	-	(49)	(3)	-	(2)	(54)
Transfer to assets held for sale (Note 14)	(3,469)	(41,517)	(6,666)	-	(3,181)	(54,833)
Final balance	54,781	378,859	2,624	-	14,335	450,599
PROVISIONS						
Initial balance	-	500	-	-	-	500
Allocations	2,957	-	-	-	-	2,957
Withdrawals	-	(82)	-	-	-	(82)
Final balance	2,957	418	-	-	-	3,375
NET VALUE						
Initial	130,288	189,297	22,646	13,547	10,314	366,092
Final	131,941	209,130	22,209	4,485	9,346	377,111

(In thousands of euros)

2015 Financial Year

	Land and construc-tions	Technical installations and machinery	Other installations, tools and furniture	Under construction and advances	Other fixed assets	Total
COSTS						
Initial 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
Withdrawals	(2,261)	(694)	(1,567)	(384)	(296)	(5,002)
Transfers (Note 11)	-	1,679	13	(1,721)	4,005	3,976
Exchange differences	-	820	32	-	(8)	844
Final balance	186,902	593,679	31,765	13,547	27,414	853,307
AMORTISATIONS						
Initial balance	55,033	382,760	8,473	-	16,758	463,024
Allocations	2,264	21,359	693	-	345	24,661
Withdrawals	(683)	(477)	(55)	-	-	(1,215)
Transfers	-	-	-	-	-	-
Exchange differences	-	240	8	-	(3)	245
Final balance	56,614	403,882	9,119	-	17,100	486,715
PROVISIONS						
Initial balance	-	600	-	-	-	600
Withdrawals	-	(100)	-	-	-	(100)
Final balance	-	500	-	-	-	500
NET VALUE						
Initial	133,250	194,575	20,807	3,528	5,015	357,175
Final	130,288	189,297	22,646	13,547	10,314	366,092

Investments in Tubos Reunidos Industrial in 2016 relate mainly to the replacement of those assets damaged in fires that occurred at the beginning of financial year 2016 (Note 27). At Productos Tubulares, major investments have been earmarked for the completion of the power train of the drilling rig. Moreover, Tubos Reunidos Premium Threads (TRPT) carried on with the necessary investments to start production during the year.

Additions to property, plant and equipment carried out in 2015 were related to investments in the strategic plan of the Group for the development and expansion of the range of special pipe and technologically advanced and more competitive production processes. Tubos Reunidos Industrial investments in 2015 include the treatment of Premium pipeline and the development of know-how for launching new products. At Productos Tubulares, the major investments have been designed to optimise the ability to produce large diameter pipes from very high special stainless steel alloys. Moreover, Tubos Reunidos Premium Threads (TRPT) made the investments for the assembly lines, cranes and machinery necessary for the start of production activities that the Company that commenced in financial year 2016.

During 2015 the Group carried out a detailed analysis of the parts they had in their warehouses and transferred to the heading of property, plant and equipment an amount of 3.9 million euros of spare parts of property, plant and equipment that were previously assigned under stocks, and the estimated storage cycle thereof is longer than one year.

a) Updates

At 31 December 1996, some Group companies updated property, plant and equipment assets in accordance with the corresponding legal standards (Provincial Law 4/1997, of 7 February, Provincial Law 6/1996, of 21 November, and Royal Decree 2607/1996, of 20 December) to a net effect of 13.7 million euros, including assets classified as held for sale. This update has been fully amortised since 31 December 2008.

b) Insurance

The Group has insurance policies to cover the risks to which the property, plant and equipment are subject.

The coverage of these policies is deemed sufficient.

c) Losses due to value impairment

In accordance with IAS standard 36, the Group Management prepared the obligatory asset impairment analysis. In preparing this analysis, the 2015 business plan was revised and a strategic plan for 2017-2020 was drafted in order to adapt to current market conditions and to include the updated assumptions for it. In the preparation of this plan, the following main aspects have been taken into account:

- Investments made in the 2012/2015 period aimed at product diversification, added value increases and improving competitiveness, directed toward growth and improving the positioning of OCTG products, alloy products, tube diameters and special lengths primarily geared for petrochemical and power generation markets.

- Investments in the new pipe finishing plant (TRPT) geared for growth and diversification in strategic markets and positioning of value-added products.

- Customer and existing markets structure, as well as the entry into new markets and products based on investments and business strategies applied.

- Internal actions to manage the current low cycle and improve competitiveness. Efficiency and transformation plan.

- Greater geographic commercial and productive presence in growth markets.

- Business performance according to current macroeconomic circumstances, adapted to the unique operating environment of each CGU analysed.

The different assumptions used (expected growth, use of the installed production capacity, expenses, changes in working capital, etc.) were projected taking into account not only historical data but also the current market conditions, as well as the goals set by the Group Management.

In an environment where economic cycles are increasingly difficult to anticipate, and considering that visibility has been in decline in recent years, the projections reflect the best estimates made by Management. In this regard, the relevant key assumptions of the projections are the development of tonnage, the development of sales prices, improved margins, development of prices of raw materials, estimated GDP growth, expectations of oil price developments or investments planned in the OCTG business.

This analysis was prepared for each of the CGUs of the Group's seamless piping business, i.e. for Tubos Reunidos Industrial and Productos Tubulares. The projections prepared by the Management team in both cases cover a period of 9 years, starting from the early years of the 2017-2020 strategic plan prepared by the Management team.

Tubos Reunidos Industrial

Starting from a context of all-time lows in 2015 and 2016, a gradual recovery of tons produced is under way following the start-up of TRPT's new Premium pipe finishing plant, the expected completion of downsizing of OCTG pipe stock in the US, the international projections of oil prices, the estimates of active RIGS and consumption of OCTG pipe by RIG. Starting in 2020, the situation will be more in-line with historical data, with an average growth of 2% in tons delivered estimated as of right now, with growth in the early years leading to 2020 being the most relevant, considering the low cycle situation in the current financial year.

With respect to the net amount of turnover, the Management team projected an average growth of approximately 4.5% from 2018 as a result of the above-mentioned increase in tons and a slight recovery in prices (average increase of 3.6% in the 2018-2025 period), with an average growth of tons sold between 3% and 10% starting in 2018. Market share increases are not being projected, but rather the current share is being maintained, with the key assumptions mentioned above.

In relation to production costs, some containment efforts are being carried out, looking to be more efficient and achieve savings, so that the projected levels gather the most objective and quantifiable relevant data possible without predicting a significant reduction. In this regard, the Management team expects moderate EBITDA increases over sales throughout the plan, achieving an average annual EBITDA increase of 11% starting in financial year 2018.

Cash flow beyond the period of nine years considered in the plan is extrapolated using a perpetuity growth rate estimated at 1%. The discount rate used was 7.7% after tax.

With these conditions in mind, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 65% of their value.

The Management team has performed a sensitivity analysis of the plan by reducing the results by 10%, with no impairment displayed in this scenario and exceeding, in this case, the present value of expected cash flow to value the CGU's net assets at 49%. In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 1%, and considering a perpetual growth rate of 0.5% with no impairment found in these scenarios. In this scenario, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 35% of their value.

Starting from the initial hypothesis, an 11.2% WACC is required to equal the present value of the estimated book value of the asset flow. Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 40% for the present value of future cash flow to equal the carrying amount of assets.

Based on the current value of the cash flow obtained, significantly higher than the book value of the assets both in the original assumptions and in the sensitivity analysis carried out, the Group Management did not recognise any value impairment.

Productos Tubulares

The average growth in turnover projected throughout the plan is obtained from an average 3% growth in tons sold from financial year 2018. In 2018, the company expects to reach sales levels similar to the average of 2009-2015, and from that year onwards the average turnover growth projected is 4.8%, slightly higher than the growth in tonnes. There are no market share increases projected.

Regarding production costs, we have considered the improvements stemming from the efficiency and transformation plan, considering cost efficiency improvements and increases in production efficiency. A gross margin level similar to the average achieved in 2008-2014 is expected, as well as an annual EBITDA increase of 17% from 2018.

Cash flow beyond the period of nine years is extrapolated using a perpetuity growth rate estimated at 1%. The discount rate used was 7.7% after tax.

With these conditions in mind, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 50% of their value.

The Management team has performed a sensitivity analysis of the plan by reducing the results by 10%, with no impairment displayed in this scenario and exceeding, in this case, the present value of expected cash flow to value the CGU's net assets at 36%. In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 1%, and considering a perpetual growth rate of 0.5%, with no impairment found in these scenarios. In this last scenario, the current value of the cash flow forecast exceeded the value of the net assets of the CGU by 24% of their value.

Starting from the initial hypothesis, a 10.6% WACC is required to equal the present value of the estimated book value of the asset flow. Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 35% for the present value of future cash flow to equal the carrying amount of assets.

Based on the current value of the cash flow obtained, higher than the book value of the assets, both in the original assumptions and in the sensitivity analysis carried out, the Group Management did not recognise any value impairment.

Distribution segment

Regarding the properties of the distribution segment that are not part of the transaction described in Note 14.2, during 2016 the Group updated the appraisals of these industrial buildings, with the company Aguirre & Newman performing the appraisal of 89% of the total amount of the industrial buildings affected in the segment. Such appraisals did not reveal any losses due to value impairment. However, after the decision to sell the distribution segment and in light of all the evidence of the sale on the market of similar properties at prices lower than the appraisal value, the Group noted an impairment amounting to 3 million euros in relation to these properties which is assigned under "Other net profit / (losses)" in the profit and loss accounts of the current financial year (Note 27). The net book value of the industrial buildings amounts to 16 million euros at 31 December 2016.

(In thousands of euros)

d) Leases

Financial leases

The machinery heading included, at 31 December 2015, the following amounts where the Group was the lessee under a finance lease:

	2015
Capitalised financial leases cost	2,633
Accumulative depreciation	(1,770)
Net carrying amount	863

The amounts payable of these financial leases were recorded in accounts payable (current and non-current) (Note 19). All leases were related to the automotive segment sold in 2016 (Note 14).

Operating leases

The profit and loss account includes lease expenses amounting to 1,604 thousand euros, of which 741 thousand euros correspond to the distribution segment and 126 thousand euros to the automotive segment; both segments were discontinued in the current financial year (2015: 1,489 thousand euros, of which 752 thousand euros corresponded to the distribution segment and 427 thousand euros to the automotive segment), which mainly correspond to property leasing.

During 2010 the Group sold a venue and, in the same transaction, formalised with the buyer an operating lease of the property with a mandatory 10 year term, during which the rent (currently set in 39 thousand euros per month approximately) is updated taking into account the percentage variation sustained by the Consumer Price Index (CPI) in Spain.

A purchase option by the Company is included in the lease, which shall be the market price determined by an expert independent of the parties when the purchase option expires. This contract was signed by a group company whose assets and liabilities are classified as held for sale at 31 December 2016 (Note 14).

The Group has the right not to extend the rental beyond the minimum compulsory period. In addition, the buyer was not granted any guarantee on possible losses arising from early termination of the contract, or on possible fluctuations in the residual value of the mentioned venue.

(In thousands of euros)

In carrying out the above transaction, it is considered that the economic life of the venue transferred exceeds in all cases 30 years. Also, the selling price of the venue and the agreed subsequent rental has been set at fair market value at that date. The percentage represented by the present value in 2010 of the minimum lease payments over the fair value of the leased venue to the date of formalisation of the operation was 73%.

In addition, during 2014 a group company entered into an operating lease of the property and industrial building in which it will develop its productive activity. The lease is signed for a period of 25 years, renewable for periods of 5 years (with an initial compulsory term of 4 years). The 25 year term starts from 15 December 2015, the date in which the industrial building was formally handed over.

From the fourth year, the lessee can terminate the contract unilaterally with the sole condition of giving an eight months' notice.

The percentage represented by the present value in 2014 of the minimum lease payments over the fair value of the leased venue to the date of formalisation of the operation was 73%.

The agreed rent is updated each year of the contract in accordance with the percentage variation in the CPI in the previous 12 months.

The payments made at 31 December 2016 and 2015 for the above contracts are as follows:

	Thousands of euros	
	2016 (*)	**2015**
Less than 1 year	851	851
Between 1 and 5 years	1,998	3,056
	2,849	3,907

(*) Includes payments entailed by the distribution segment amounting to 2 million euros.

(In thousands of euros)

7. Intangible assets

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

2016 Financial Year

	Allowances	IT applications	Development expenses	Patent concessions, Lic.	Other intangible assets	Total
COSTS						
Initial balance	827	7,803	17,900	921	453	27,904
Additions	729	409	3,254	7	169	4,568
Business combinations	-	-	-	-	223	223
Write-offs	(609)	(1)	-	-	-	(610)
Transfers	-	-	-	52	(52)	-
Exchange differences	-	(3)	(10)	-	14	1
Transfer to assets held for sale	-	(4,816)	(2,400)	(674)	-	(7,890)
Final balance	947	3,392	18,744	306	807	24,196
AMORTISATIONS						
Initial balance	-	5,380	6,696	701	453	13,230
Allocations	-	592	2,883	25	6	3,506
Write-offs	-	-	-	-	-	-
Exchange differences	-	-	-	-	-	-
Transfer to assets held for sale	-	(3,446)	(1,265)	(578)	-	(5,289)
Final balance	-	2,526	8,314	148	459	11,447
NET VALUE						
Initial	827	2,423	11,204	220	-	14,674
Final	947	866	10,430	158	348	12,749

(In thousands of euros)

2015 Financial Year

	Allowances	IT applications	Development expenses	Patent concessions, Lic.	Customer portfolio	Total
COSTS						
Initial 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)	-
Exchange differences	-	19	218	-	-	237
Final balance	827	7,803	17,900	921	453	27,904
AMORTISATIONS						
Initial balance	-	4,722	3,740	670	453	9,585
Allocations	-	652	2,858	44	-	3,554
Write-offs	-	-	-	(13)	-	(13)
Exchange differences	-	6	98	-	-	104
Final balance	-	5,380	6,696	701	453	13,230
NET VALUE						
Initial	572	2,670	10,605	164	10	14,021
Final	827	2,423	11,204	220	-	14,674

Amortisation of development costs begins when the pipes are manufactured with the new developments. At 31 December 2016, most projects were under way, except three projects worth a total amount of 3.8 million euros (at 31 December 2015 there was a 1.1 million euros project that was not under way) that will start in 2017. Amortisation is carried out linearly within 5 years. All projects have estimated profits without any impairments detected.

The Group's Strategic Plan includes a number of investments to manufacture very special and higher added value Premium Products. Development projects carried out by the Group in the seamless pipe segment are directed toward larger sizes, new finishing and manufacturing steels that have previously not been produced by the Group that will compete in currently inaccessible markets.

The net book value of development costs at 31 December 2016 related to seamless pipe projects amounted to 10.4 million euros (10 million euros at 31 December 2015). At 31 December 2015 there were active development costs related to automotive parts manufacturing (1.2 million euros) related to the automotive segment which was sold during 2016 (Note 14).

As pointed out in Note 2.8.c), development costs are amortised from the commencement of the straight-line commercial production of the product during the period it is expected to generate profits, but not exceeding five years. The benefits generated annually by these projects exceed the amortisation thereof.

(In thousands of euros)

8. Property investment

The details and movements of the property investments are shown in the table below:

	Cost	Amortisations	Net Value
Initial balance at 1 January 2015	**628**	**(204)**	**424**
Allocations	-	(12)	(12)
Final balance at 31 December 2015	**628**	**(216)**	**412**
Transfer from assets held for sale (Note 14)	2,135	-	2,135
Allocations	-	(121)	(121)
Final balance at 31 December 2016	**2,763**	**(337)**	**2,426**

Real estate investments comprise industrial buildings held for rent or subsequent sale.

Transfers in 2016 from the heading of assets held for sale correspond to industrial buildings that the Group has decided to transfer to investment property due to the possibility that the sale does not materialise in the short term. These are five properties, most of which are on lease.

The group measures the investment property at the lower value between the acquisition cost and the fair value less selling costs, estimating the fair value based on the recent sales operations and/or studies carried out by independent experts.

In this regard and in relation to the assets transferred from the heading of assets held for sale, the Group requested a value appraisal of the properties by the company Tinsa during financial year 2014. During financial year 2015, the Management re-estimated the assessments via market studies/reports highlighting an impairment amounting to 385 thousand euros (Note 14.1), which it recorded in the consolidated profit and loss account of the 2015 financial year. The Group has reviewed the valuations at 31 December 2016, with no further impairments being found.

(In thousands of euros)

9. Analysis of financial instruments

9.1 Analysis by category

The carrying amount of each financial instrument categories established in the registration and valuation standard of "Financial Instruments" is as follows:

	2016			
	Credits and others	**Available for sale**	**Assets at fair value through results**	**Total**
Non-current assets				
- Other accounts receivable	186	-	-	186
	186	**-**	**-**	**186**
Current financial assets				
- Derivative financial instruments (Note 10)	-	-	-	-
- Loans and items receivable				
- Short-term financial investments	520			520
- Trade and others accounts receivable (Note 11) (*)	14,547			14,547
- Cash and cash equivalents (Note 13)	7,620	-	-	7,620
	22,687	-	-	**22,687**

	2015			
	Credits and other items	**Available for sale**	**Assets at fair value through results**	**Total**
Non-current assets				
- Other accounts receivable	150	-	-	150
	150	**-**	**-**	**150**
Current financial assets				
- Derivative financial instruments (Note 10)	-	-	24	24
- Loans and items receivable				
- Short-term financial investments	5,392	-	-	5,392
- Trade and others accounts receivable (Note 11) (*)	40,611	-	-	40,611
- Cash and cash equivalents (Note 13)	26,955	-	-	26,955
	72,958	-	24	**72,982**

(*) Excludes accounts receivable with public administrations amounting to 3,194 thousand euros (5,199 thousand euros at 31 December 2015)

(In thousands of euros)

Financial investments basically include term deposits and transfer of fixed income securities. The average return on these investments in 2016 was 0.2% (2015, 2.23%).

The maximum exposure to credit risk at the reporting date of the financial assets is the carrying amount thereof.

	2016			2015		
	Hedging derivatives	**Other financial liabilities at amortised cost**	**Total**	**Hedging derivatives**	**Other financial liabilities at amortised cost**	**Total**
Non-current liabilities:						
- Loans received (Note 20)	-	149,055	149,055	-	161,240	161,240
- Finance leasing liabilities (Note 19)	-	-	-	-	158	158
- Derived financial instruments (Note 10)	61	-	61	54	-	54
- Trade payables and other accounts payable (Note 19)	-	33,155	33,155	-	40,342	40,342
	61	**182,210**	**182,271**	**54**	**201,740**	**201,794**

	2016			2015		
	Liabilities at fair value with changes in the results	**Other financial liabilities at amortised cost**	**Total**	**Liabilities at fair value with changes in the results**	**Other financial liabilities at amortised cost**	**Total**
Current financial liabilities:						
- Loans received (Note 20)	-	59,870	59,870	-	42,146	42,146
- Finance leasing liabilities (Note 19)	-	-	-	-	413	413
- Derived financial instruments (Note 10)	1,044	-	1,044	114	-	114
- Trade payables and other accounts payable (Note 19) (**)	-	99,808	99,808	-	103,391	103,391
	1,044	**159,678**	**160,722**	**114**	**145,950**	**146,064**

(**) Excludes accounts payable with public administrations amounting to 3,478 thousand euros (4,571 thousand euros at 31 December 2015)

(In thousands of euros)

9.2. Credit quality of financial assets

Financial assets relate mainly to deposits and issues carried out by top-tier Spanish financial institutions whose assets are deposited in national or international top-tier entities. These assets have not suffered impairment loses in the 2016 and 2015.

The credit quality of other financial assets, mainly customers, is detailed in Notes 3.1.b) and 11.

10. Derivative financial instruments

Underwriting agreements for exchange rates of transactions in foreign currency and interest rate swaps contracted are included in this section:

	2016		2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward foreign currency contracts	-	1,044	24	114
Interest rate swap contracts - cash flow hedges	-	61	-	54
	-	1,105	24	168

As of 31 December 2016, there were forward foreign currency purchase and sale contracts for highly probable or concluded transactions for a total amount of 33.7 million dollars (USD), 0.5 million Australian dollars (AUD) (2015, 36.6 million dollars (USD), 0.1 million pounds sterling (GBP) and 0.3 million Australian dollars (AUD)), whose maturity occurs in all cases in 2017 (for the existing operations at 31 December 2015, all of them matured in 2016). These contracts are accounted for as held for trading with earnings (losses) assigned as income.

In addition, during the 2016 financial year, the Group began to enter into interest rate swap transactions. The amounts of the notional principal of the interest rate swap transactions (from variable to fixed) outstanding at 31 December 2016 are 19.6 million euros (9.7 million euros at 31 December 2015). These swap transactions are classified as hedging instruments. A 31 December 2016, fixed interest rates of these swaps were around 0.18% with the benchmark variable interest rates being the Euribor at 3 months (31 December 2015: fixed interest rate were around 0.18% and benchmark variable interest rates were Euribor 3 at months).

(In thousands of euros)

11. Trade and others accounts receivable

	2016	2015
Trade	13,798	40,655
Less: Value impairment of receivables	(142)	(1,070)
Trade receivables - Net	13,656	39,585
Other receivables (personal and other debts)	891	1,026
Total	14,547	40,611

Accounts receivable are displayed at nominal values that do not differ from their fair values based on discounted cash flow at market rates.

There is no credit risk concentration with respect to trade receivables, as the Group has a large number of customers all over the world (Note 5).

In addition to the non-recourse factoring transactions described in Note 3.1.b), as of 31 December 2016 the amount of customer balances and receivables discounted in financial institutions amounted to 503 thousand euros (2015, 2,876 thousand euros), with the transaction being accounted for as a bank loan (Note 20).

The Group manages credit risk by risk rating each of its customers and by ensuring the collection of the amounts invoiced by CESCE, according to the criteria and hedging percentages indicated in Note 3.1.b).

Those balances that have exceeded the nominal maturity date and that are within the usual stipulated deadlines of the collection systems established with the different customers are not considered overdue accounts receivable. At 31 December 2016, there were no balances that had exceeded the established collection agreements or terms of regular payments that were not included in the corresponding impairment analysis.

Customer accounts not subject to impairment losses refer to independent customers who have no recent history of default. All these customer balances mature in under twelve months (2015, under twelve months).

As of 31 December 2016 all accounts receivable, due or not, whose recovery could be considered as doubtful in those dates, have been impaired. The value impairment was made by estimating the reasonable loss that corresponds to each customer less the amounts whose recovery is guaranteed by Insurance Companies.

(In thousands of euros)

The movement in the value impairment for the financial years 2016 and 2015 corresponds to the following amounts and concepts:

	Total
At 31 December 2014	**2,035**
Allocations /(Reversion) (Note 26)	(688)
Applications	(277)
At 31 December 2015	**1,070**
Allocations /(Reversion) (Note 26)	(24)
Applications	(282)
Transfer to assets held for sale	(622)
At 31 December 2016	**142**

Accounts receivable that have suffered an impairment loss mainly related to balances with specific collection problems, identified individually.

The credit quality of customer balances that have not been impaired can be classified as satisfactory, as in almost all cases it involves risks accepted and covered by credit risk Insurance Companies and/or by Banks and Financial Institutions.

The maximum exposure to credit risk at the date of provision of information is the fair value of each of the accounts receivable detailed above, in any case, considering the above-mentioned credit insurance hedging.

The carrying amounts of the Group's accounts receivable in foreign currency are denominated in the following currencies (excluding balances in euros):

	Thousands of euros	
	2016	2015
US Dollar	6,954	18,283
Pound sterling	74	157
Chinese Yuan	-	3,657
Other currencies	482	438
	7,510	22,535

(In thousands of euros)

The aging of overdue balances held by the Company at 31 December 2016 and 2015, without considering those balances already impaired, is as follows:

	2016	2015
Balances not due	7,658	32,390
Overdue balances up to 3 months	5,263	7,863
Overdue balances from 3 to 6 months	877	402
	13,798	40,655

The aging of the provision for bad debts held by the Company at 31 December 2016 and 2015 for continuing operations is as follows:

	2016	2015
Provision of overdue balances up to 3 months	-	20
Provision of overdue balances of over 3 months	142	1,050
	142	1,070

12. Inventories

	2016	2015
Raw materials and other supplies	31,003	34,764
Ongoing products	25,588	24,912
Finished products	45,330	62,086
Advances to suppliers	-	33
	101,921	121,795

During 2015, the Group carried out a detailed analysis of the parts they had in their warehouses, and transferred to property, plant and equipment 3.9 million euros worth of spare parts of property, plant and equipment that were previously assigned under "Raw materials and other supplies" (Note 6).

The cost of inventories assigned as an expense is broken down as follows:

	2016	2015
– Purchases	90,584	112,492
– Variations in raw materials and other supplies	258	9,107
– Variations in provisions for value impairment of current and finished product	(16)	(968)
– Variation of ongoing and completed product	466	10,452
	91,292	131,083

(In thousands of euros)

During financial years 2016 and 2015 there were purchases in foreign currency amounting to 16 and 23 million euros respectively.

The change in the value impairment of inventories to adjust their value to their realisable value during the financial years was as follows:

	Total
At 31 December 2014	**8,655**
Allocations / (Reversions)	(2,151)
Applications	(19)
At 31 December 2015	**6,485**
Allocations / (Reversions)	(223)
Applications	(30)
Transfer to held for sale	(1,233)
At 31 December 2016	**4,999**

The provisions maintained at 31 December 2016 were estimated based on turnover statistics and individual analysis of the conditions and assessment of the various items comprising the Group's inventories.

In addition, the Group, considering the net recovery value of all inventories, registered valuation adjustments amounting to 6 million euros.

During 2015, and after completion of a detailed analysis of the parts mentioned above, the Group proceeded to back out some of the provision that was assigned for those parts amounting to 1.3 million euros, considering that their utility remained in force.

13. Cash and cash equivalents

	2016	2015
Cash and banks	7,620	26,955
	7,620	26,955

14. Assets held for sale and discontinued operations

Assets classified as held for sale at 31 December 2016 relate entirely to assets for the distribution segment (Note 1). At 31 December 2015, assets held for sale referred to property investment (Note 8).

Additionally, the sale of the automotive segment took place during the financial year, thus classifying the results of that segment, as well as the result obtained by the sale, as a discontinued operation.

(In thousands of euros)

14.1 Property Investment

These assets were presented as held for sale following the decision of the Board of Directors of the parent company to sell said assets and the active sale process in which the Group was involved.

During financial year 2016, and in light of the possibility that the sale of these properties at 31 December 2015, which were classified as held for sale, does not materialise in the next 12 months, the Group has decided the transfer such properties to the "Property investment" heading of the consolidated balance sheet at 31 December 2016 (Note 8).

Derecognition for the financial year relates to the sale of one property, whose value amounted to 985 thousand euros at 31 December 2015. The negative result of the sale of this property amounted to 35 thousand euros.

The movement during financial year 2015 corresponded to the sale of 3 properties, whose value amounted to 1,094 thousand euros at 31 December 2014. The positive result of the sale of these properties amounted to 1,031 thousand euros.

The movement of the non-current assets held for sale during financial year 2016 and 2015 was as follows:

	Total
Final balance at 31 December 2014	**4,599**
Derecognition of investment property	(1,094)
Allocation provision due to investment property impairment	(385)
Final balance at 31 December 2015	**3,120**
Derecognition of investment property	(985)
Transfer of property investments (Note 8)	(2,135)
Final balance at 31 December 2016	**-**

14.2Distribution segment

At year-end 2016, it was decided to classify the distribution segment as an asset held for sale, following the agreements reached to formalise the sale of that business. In this way, the distribution business is considered a discontinued operation, except for the industrial buildings that were being used in the business and in the projects and prefabricated business, since they will not be part of this transaction. The industrial buildings have been classified as property, plant and equipment (Note 6).

The sale of the distribution business is expected to be completed during the first quarter of 2017 after the conversions and agreements reached in the last quarter of 2016.

(In thousands of euros)

a) Non-current asset cash flow held for sale and discontinued operations:

	31/12/2016	31/12/2015
Cash flow from operating activities	(68)	(2,025)
Cash flow from investment activities	1,399	1,732
Cash flow from financing activities	(1,417)	310
Total cash flow	**(86)**	**17**

b) Non-transferable Group assets classified as held for sale and other non-current assets (distribution segment)

	31/12/2016	31/12/2015
- Property, plant and equipment	76	-
- Intangible assets	952	-
- Other non-current assets	12	-
- Inventories	5,777	-
- Debtors and other accounts receivable	1,160	-
Value impairment of intangible assets	(952)	-
Total	**7,025**	**-**

c) Non-transferable Group liabilities classified as held for sale

	31/12/2016	31/12/2015
Debts to credit institutions	2,181	-
Suppliers and creditors	2,406	-
Other current liabilities	38	-
Total	**4,625**	**-**

d) Analysis of the results of discontinued operations

	31/12/2016	31/12/2015
Income	18,393	18,748
Expenses	(21,454)	(21,145)
Profit/(loss) before tax of discontinued operations	(3,061)	(2,397)
Reversal of tax credits	(2,565)	-
Value impairment of intangible assets	(952)	-
Profit/(Loss) for the period from discontinued operations	**(6,578)**	**(2,397)**

(In thousands of euros)

14.3 Automotive segment

As indicated in Note 1, in 2016 the decision to sell the automotive segment was made (previously consisting of the companies Industria Auxiliar Alavesa, S.A. (INAUXA), Engineering Developments for Automotive Industry, S.L. (EDAI), EDAI Technical Unit, A.I.E., Kunshan Inautek Automotive Components Co. Ltd. and Inaumex, S.A. de C.U.), the sale taking place on 29 July 2016.

The Group, together with the rest of the minority shareholders in the automotive segment, signed a binding agreement for the sale of the entirety of its shares in the companies of that segment.

The sale price of the operation amounted to 33 million euros for all shares of the automotive segment (net sale price after expenses of 31.8 million euros), with the Group owning a share of 50%. The sale had a positive effect amounting to 4 million euros in the consolidated profit and loss account of the Group.

a) Non-current asset cash flow held for sale and discontinued operations:

	31/12/2016 (*)	31/12/2015
Cash flow from operating activities	1,710	8,092
Cash flow from investment activities	(13,828)	(4,594)
Net disinvestment automotive segment (**)	11,324	-
Cash flow from financing activities	(1,408)	(1,362)
Total cash flow	**(2,202)**	**4,860**

(*) Corresponds to the flow generated until 29 July 2016 (date of the sale of the segment).
(**) Includes the amount actually charged by the sale of the segment less the cash delivered amounting to a total of 4,564 thousand euros.

b) Analysis of the results of discontinued operations

	31/12/2016 (*)	31/12/2015
Income	35,340	58,954
Expenses	(35,134)	(56,006)
Profit/(loss) before tax of discontinued operations	206	2,948
Tax on profits	(116)	(751)
Net profit of discontinued operations net of tax	**90**	**2,197**
Profit / (loss) assigned on the sale	**3,952**	**-**
Profit for the period from discontinued operations	**4,042**	**2,197**

(*) Results corresponding to the period from 1 January 2016 to 29 July 2016, at which the sale of the segment took place.

(In thousands of euros)

As a result of the purchase agreement, the Group has granted the buyer the usual guarantees in this type of operation, with a liability limit of 38% of income received and a limitation period of 5 years. Group administrators do not expect any liabilities arising in connection with the operation.

15. Share capital and share premium

	No. of shares (thousand)	Share capital	Share issuance premium	Treasury shares	Total
Balance at 31 December 2014	174,681	17,468	387	(790)	17,065
Acquisition of treasury shares	-	-	-	(5,020)	(5,020)
Sale of treasury shares	-	-	-	4,784	4,784
Balance at 31 December 2015	174,681	17,468	387	(1,026)	16,829
Acquisition of treasury shares	-	-	-	(4,391)	(4,391)
Sale of treasury shares	-	-	-	4,480	4,480
Balance at 31 December 2016	174,681	17,468	387	(937)	16,918

a) Share capital

During the financial years 2016 and 2015, there were no changes in capital, therefore the total number of common shares amounts to 174,680,888 shares with a nominal value of 0.1 euros per share.

The companies that have a share in the share capital in a percentage equal to or greater than 10% are:

	31/12/2016	
Company	**Number of shares**	**Percentage of shares**
Grupo BBVA	25,975,018	14.87%
	25,975,018	14.87%

	31/12/2015	
Company	**Number of shares**	**Percentage of shares**
Grupo BBVA	25,975,018	14.87%
	25,975,018	14.87%

All of the shares of the parent company are officially listed on the stock exchanges of Bilbao and Madrid. Since 1 July 2005, they have been traded using the main method (OPEN) on the Spanish Stock Exchange Interconnection System (SIBE). The listed price at 31 December 2016 was 0.865 euros per share (31 December 2015, 0.585 euros per share).

b) Share issuance premium

This premium is freely available.

(In thousands of euros)

c) Treasury shares

2016 Financial Year

	Number of shares	Amount (thousands of euros)
Initial balance	562,748	1,026
Acquisitions	6,093,224	4,391
Sales	(6,243,948)	(4,480)
Final balance	412,024	937

2015 Financial Year

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

Clima, S.A. (Sociedad Unipersonal), a wholly owned company, has a liquidity contract with Norbolsa, S.V., S.A. for the purpose of carrying out operations with the common and unique shares of the Company.

On 29 June 2016, the General Shareholders' Meeting authorised the acquisition of treasury shares up to the maximum number of shares allowed under current legislation for a maximum period of 5 years.

At 31 December 2016, Clima S.A.U., a company whose aforementioned current liquidity contract remains in force, owned 412,024 shares with a value of 937 thousand euros (2015, 562,748 shares with a value of 1,026 thousand euros).

16. Other reserves and retained earnings

The structure of "Other reserves and retained earnings" is as follows:

	2016	2015
Other reserves	48,924	48,924
Retained earnings	110,733	160,915
	159,657	209,839

(In thousands of euros)

a) Other reserves

First conversion reserves

The “Other reserves” heading corresponds to first conversion entries posted in the opening balance as at 1 January 2004 and those corresponding to adoption of IAS 32 and 39, effective from 1 January 2005.

b) Retained earnings

b.1) Reserves of the Parent Company

At year-end 2016 and 2015 the reserves (excluding the share issuance premium) included in the annual accounts of the parent company are as follows:

	2016	2015
Legal reserve	4,099	4,099
Voluntary reserve	48,313	50,945
	52,412	55,044

Legal reserve

The Legal reserve has been endowed in accordance with article 274 of the Corporation Act which states that, in any case, an amount equal to 10% of annual profits will be assigned to reserves until it reaches at least 20% of the share capital.

It cannot be distributed and if used to offset losses, if there are no other reserves available for this purpose, it must be replaced with future profits.

The legal reserve exceeded the legal limit required as of 31 December 2016 and 2015.

Voluntary reserve

The voluntary reserve is freely available.

b.2) Other unavailable reserves

As of 31 December 2016 and 2015 there were other unavailable reserves and retained earnings corresponding to:

	2016	2015
Legal reserve of Investees	9,797	10,435
Balance revaluation reserves (according to local legislation)	-	643
	9,797	11,078

(In thousands of euros)

The legal reserve has been endowed in accordance with article 274 of the Corporation Act (Note 16.b.1).

c) Distribution of results proposal

The proposed distribution of the 2016 results of the parent company to be submitted to the General Meeting of Shareholders (based on unconsolidated balances prepared following the GAAP criteria), and the distribution approved in 2015 is as follows:

	2016	2015
Allocation basis		
Performance of financial year	(333)	(2,636)
Distribution		
Negative results from previous financial years	(333)	(2,636)
	(333)	(2,636)

d) Stock options

There was no stock option plan in Tubos Reunidos Group, neither at year-end 2016 nor at year-end 2015.

17. Minority interests

The Movements that took place in the minority interests account for the years 2016 and 2015 were as follows:

	2016	2015
Initial balance	17,106	15,829
Profit / (Loss) for the year	(1,063)	976
Exchange differences	(108)	301
Variations in the scope of consolidation	(12,267)	-
Final balance	3,668	17,106

The distribution by companies is shown in the following table:

Company/Subgroup	2016	2015
Inauxa (Note 1)	-	12,080
EDAI (Note 1)	-	249
Tubos Reunidos Premium Threads, S.L. (Note 1)	3,668	4,777
	3,668	17,106

(In thousands of euros)

During financial year 2016, the automotive segment was sold (Note 14), in which Tubos Reunidos Group had a participation of 50%. The output in the consolidated scope corresponds to the participation of 50% by external partners of that segment (Inauxa and EDAI).

The breakdown of the amount of minority interests between ongoing and discontinued operations is as follows:

	31/12/2016	31/12/2015
Ongoing operations	(1,108)	(123)
Discontinued operations (*)	45	1,099
	(1,063)	**976**

(*) Results corresponding to automotive segment sold in 2016.

18. Deferred income

The details of the balances of this heading are as follows:

	2016	2015
Tax credits for deductions for investments	11,891	13,548
Other income to be distributed in various financial years	1,974	1,546
	13,865	15,094

The movement of the tax credits for deductions for investments was as follows:

	2016	2015
Initial balance	13,548	11,720
Generation in the financial year (Note 21)	29	3,689
Credit to the profit/loss account for the period (Note 24)	(1,602)	(1,861)
Transfer to assets held for sale	(84)	-
Final balance	11,891	13,548

The tax credits generated by the Group were recorded and assigned to income according to the criteria described in Note 2.19.

(In thousands of euros)

19. Accounts payable

a) Other non-current liabilities

This heading includes the following items and amounts:

	2016	2015
Creditors under finance leases (leasing)	-	158
Suppliers of property, plant and equipment	721	619
Public Administrations	11,935	14,453
Other debts	20,499	25,270
Trade payables and other accounts payable	33,155	40,342
	33,155	40,500

The 'Other debt' heading basically includes loans from official agencies at a subsidised rate amounting to 20.4 million euros (2015, 25.3 million euros), mainly to finance research and development projects.

At the end of 2016 and 2015 long-term accounts payable are included within Public Administrations.

The interest rate applied during the financial year 2015 in finance leases amounted to 2.80%.

a.1) Leases

Leasing liabilities correspond to the following maturities:

	2016	2015
Finance leasing liabilities minimum lease payments:		
Less than 1 years	-	468
Between 1 and 2 years	-	178
Between 2 and 5 years	-	-
	-	646
Future finance charges on finance leasing	-	(75)
Present value	-	571

The present value of finance leasing liabilities is as follows:

	2016	2015
Less than 1 years	-	413
Between 1 and 2 years	-	158
Between 2 and 5 years	-	-
	-	571

(In thousands of euros)

Amounts under one year are assigned under 'Suppliers and other accounts payable'.

The summary of the terms of existing finance leasing contracts at 31 December 2015 are displayed in the following table:

2015 Financial Year

Item	Duration	Cost	Value of purchase option	Instalments paid (1)
Machinery	5 years	2,633	47	2,061
		2,633	47	2,061

(1) Includes financial charge satisfied in each instalment.

These contracts did not require specific guarantees independent from the solvency of the Company/Group itself.

These financing leases were related entirely to the automotive segment.

a.2) Other non-current liabilities

Other non-current liabilities present the following maturity schedule:

	2016	2015
Between 1 and 2 years	6,394	5,689
Between 2 and 5 years	17,706	18,834
More than 5 years	9,055	15,819
	33,155	40,342

b) Trade payables and other accounts payable

This heading includes the following items and amounts:

	2016	2015
Creditors under finance leases (leasing)	-	413
Suppliers	73,606	75,341
Remunerations pending payment	4,642	3,855
Other debts	8,605	7,735
Suppliers of property, plant and equipment	12,955	16,460
Trade payables and other accounts	99,808	103,391
	99,808	103,804

(In thousands of euros)

The "Other liabilities" heading mainly includes Public Administration balances amounting to 3.7 million euros (2.6 million euros at 31 December 2015), customer advances amounting to 3.1 million euros (3 million euros at 31 December 2015) and the short-term portion from government agency loans at a subsidised rate amounting to 1.7 million euros (1.9 million at 31 December 2015).

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

As of 31 December 2016 and 2015, the 'Outstanding remuneration' heading mainly contains the payroll of the month of December, the variable compensation accrued during the financial year, the compensations pending settlement and other remuneration items set by collective agreement.

Information on late payments to suppliers. Third additional provision. "Duty of information" of Law 15/2010 of 5 July"

The information on the average payment period to suppliers in commercial operations for the financial year 2016, in accordance with the obligations established by Law 15/2010 of 5 July, is as follows:

	2016	**2015**
	Days	**Days**
Average payment period to suppliers	79	75
Ratio of paid transactions	83	76
Ratio of outstanding payment transactions	70	70
	Thousands of euros	**Thousands of euros**
Total payments made	131,375	195,198
Total outstanding payments	53,333	38,585

The carrying amounts of the Group's accounts payable in foreign currency are denominated in the following currencies:

	Thousands of euros	
	2016	**2015**
US Dollar	4,859	3,246
Chinese Yuan	-	2,000
Other currencies	8	17
	4,867	5,263

(In thousands of euros)

20. External funds

	2016	2015
Non-current		
Loans with credit institutions	128,720	142,339
Negotiable debentures and securities	15,043	14,967
Loans with related entities	5,292	3,934
	149,055	161,240
Current		
Short-term and long-term loans	50,549	36,450
Financing of imports	-	1,089
Available in credit accounts	6,830	251
Outstanding discounted bills	503	2,876
Interest payable and others	1,193	1,480
Loans with related entities	795	-
	59,870	42,146
Total other external funds	208,925	203,386

Of the total external funds of the Group at 31 December 2016, 12.9% of the debt is referenced at a fixed rate (12% at 31 December 2015); for 9% of the debt, the Group uses interest rate swap transactions for cash flow hedges (for 5% of the debt at 31 December 2015) and the rest of the debt is at a variable rate.

Among the financing activities that the Group carries out are two loans that include compliance with certain financial ratios with periodic revisions made. One of these loans is signed with the EIB and the other with the ICO. In the case of the EIB loan, the total outstanding amount at 31 December 2016 is 27.9 million euros. Further, the loan with the ICO has a pending amount of 6.3 million euros at 31 December 2016 (8.3 million euros at 31 December 2015).

The compliance clauses set to maintain the loan with the EIB in the current conditions mean reaching certain levels of the following ratios at a consolidated level:

- Gross debt/EBITDA ratio
- Operating profit/financial interests ratio
- Gross debt/gross debt + net equity ratio
- Minimum amount of liquidity reserve

These conditions must be met on a quarterly basis throughout 2017, although they are expected to be modified as explained in Note 3.1.c).

As for the loan with the ICO, the conditions demanded of Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal), the borrowing company of the contract with the ICO, are:

- EBITDA/financial expenses
- Net debt/own funds (on an individual and consolidated level)

These conditions must be met annually on the closing date of each financial year.

While some of the EIB conditions are not met at the end of 2016, the Group's Management obtained a waiver before the end of 2016, therefore they are exempt from compliance as of 31 December 2016. Thus, the debt has been classified as long-term.

In the case of ICO, one of the ratios is not met at the end of 2016 and the Group's Management did not obtain a waiver before the end of 2016, although the waiver was obtained during the month of February 2017. In view of the above, the Group has classified the entire debt to the ICO as short-term.

Regarding 2017, it is possible that the obligation of one of the financial ratios established on the EIB loan may not be fulfilled. However, based on past experience with the EIB, in the event that this obligation is not met, Group Management hopes to continue to obtain exemptions at any given time, as they have been obtained throughout 2016. In addition, the Group's Management has conducted a liquidity analysis for 2017 and the process of debt reorganisation being carried out in 2017 (Note 3.1.c), as it is understood that the liquidity situation is not a going concern problem as explained in Note 3.1.c) and the new financing conditions for future financial years. Thus, the debt has been classified as long-term.

Moreover, among the EIB loan conditions it was indicated that, in the case of the sale of the automotive segment, the Group should amortise an amount of the loan ahead of time equivalent to the debt ratio of the EIB loan concerning the total debt on the amount charged for the sale. Due to the sale of the automotive segment in July 2016, the Group managed an early amortisation of 3 million euros.

In addition, at the end of the 2015 financial year, the parent company of the Group issued bonds with a coupon of 4.95% and a face value of 15.5 million euros. The maturity period of the bonds is 7 years from the issuance date at face value. The bonds were issued slightly below their face value and are accounted for at their amortised cost according to their actual effective interest rate.

Furthermore, during financial year 2016, the group company Tubos Reunidos Premium Threads, S.L. received funding from its partners amounting to 4 million euros, depending on the percentage of participation in the Company (in 2015 it received funding amounting 8 million euros under the same conditions). Thus, , a loan received from Marubeni-Itochu Tubulars Europe Plc of 5.9 million euros (5.3 million euros in the long-term and 0.6 million euros in the short-term) with final maturity in 2021 (the loan amounted to 3.9 million euros in the long-term as of 31 December 2015) is accounted as external funds of the consolidated liabilities at 31 December 2016. This loan accrues a fixed interest rate of 3.5% payable from 1 July 2017.

(In thousands of euros)

The average effective interest rates for the financial year were as follows:

	%	
	2016	**2015**
Credits and loans with financial bodies	2.2%	2.7%
Suppliers of property, plant and equipment	1.2%	2.9%
Import financing	2.0%	2.2%
Discounted bills	1.8%	2.1%

The maturity of the non-current external funds is as follows:

	2016	**2015**
Between 1 and 2 years	55,240	42,765
Between 2 and 5 years	77,261	99,044
More than 5 years	16,554	19,431
	149,055	161,240

The carrying amount of the Group's external funds is entirely in euros.

The carrying amounts and fair values (based on the discounted cash flow to the external funds market rates) of the current and non-current external funds do not significantly differ, as in all cases the amounts due accrue market interest.

The Group has the following unused credit facilities:

	2016	**2015**
Variable rate:		
– with maturity in less than one year	35,766	46,030
– with maturity in more than one year	19,407	47,935
	55,173	93,965

As for the calculation of financing cash flow, the following amounts have been primarily considered in addition to the figures of this Note:

-Departure of the automotive segment which contributed external funds amounting to 5.6 million euros.

-External funds of the distribution segment amounting to 2.2 million euros (Note 14).

(In thousands of euros)

21. Deferred taxes

The breakdown of Deferred tax Assets by source corresponds to:

	2016	2015
Temporary differences	1,938	2,147
Negative tax base	19,888	23,020
Deductions pending use and other	29,617	32,224
Total	51,443	57,391

The Group has recorded tax credits by offsetting negative tax losses, temporary differences and tax deductions. In the case of deductions for investment, the recognition as income is accrued based on the period in which property, plant and equipment assets that have generated tax credits are amortised (Notes 2.19 and 18).

Deferred tax assets for tax loss carry-forwards and other tax credits pending application are assigned to the extent that the realisation of the related tax benefit is probable through future taxable profits.

The amounts of the deferred tax assets are as follows:

	2016	2015
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	51,443	57,277
- Deferred tax assets to be recovered in 12 months	-	114
	51,443	57,391

(In thousands of euros)

Movements during the financial years 2016 and 2015 in deferred tax assets were as follows:

Deferred tax assets	Temporary differences	Negative tax base	Deductions pending application	Total
At 31 December 2014	5,021	12,994	27,787	45,802
Generation in current and previous financial years	37	10,126	-	10,163
Deductions noted as deferred income (Note 18)	-	-	3,689	3,689
Deductions noted as other income (Note 24)	-	-	975	975
Other deductions noted as income tax (Note 30)	-	-	233	233
Application / Write off	(2,911)	(100)	(460)	(3,471)
At 31 December 2015	2,147	23,020	32,224	57,391
Generation in current and previous financial years	-	43	-	43
Deductions noted as deferred income (Note 18)			29	29
Transfers	81	(81)	-	-
Other deductions noted as income tax (Note 30)			40	40
Transfer to held for sale (automotive segment)	(13)	(307)	(2,676)	(2,996)
Application / Write off	(277)	(2,787)	-	(3,064)
At 31 December 2016	1,938	19,888	29,617	51,443

Regarding write-offs for tax loss carry-forwards, they mainly correspond to the reversal of the taxable income of the distribution segment after assessment of their recoverability is performed by the Management team. The result of the write off of these deferred taxes of 2.6 million euros is collected as part of the result from discontinued operations (Note 14).

Temporary differences relate mainly to provisions which will be tax deductible expenses in the future.

At 31 December 2016, the Group has tax loss carry-forwards from prior financial years amounting to a share of 37,394 thousand euros, of which 17,506 thousand euros are not activated. All of these taxable bases relate to the Seamless Pipe segment.

In addition, the Group has deductions pending implementation as of 31 December 2016 amounting to 31,237 thousand euros, of which 1,620 thousand euros are not activated. All of these deductions relate to the Seamless Pipe segment.

All of the deferred tax assets accounted for by the Group at 31 December 2016 relate to the Basque Country tax group.

The description of the Basque Country tax group is detailed in Note 30.

On the other hand, Almesa (distribution segment, a segment which is classified as discontinued at 31 December 2016) is subject to state tax.

The applicable legislation for the tax periods from 1 January 2014 onwards for entities subject to the Alava provincial legislation (the Basque Country tax group) establishes a temporary limit of 15 years for deductions and tax loss carry-forwards generated, establishing in addition that for those that existed prior to the aforementioned date, the period of 15 years begins from 1 January 2014.

Therefore, in regard to the Basque Country tax group's tax loss carry-forwards and deductions generated to be carried forward prior to the 2014 financial year (10.1 million in tax loss carry-forwards in instalments and 25 million in deductions) expire in 2028. The amounts generated in the 2014 financial year (0.5 million in taxable bases in instalments and 4.9 million euros of deductions) expire in 2029. The tax loss carry-forwards and deductions generated in 2015 (8.6 million in taxable bases in instalments and 1.3 million euros of deductions) expire in 2030. The taxable bases generated in the current financial year (18.2 million euros) expire in 2031.

In the case of Almesa (distribution segment, classified as discontinued activity), which is subject to state regulation Law 27/2014 of 27 November on Corporate Tax, tax loss carry-forwards have no time limit for compensation, but they do have annual quantitative limits based on applicable legislation.

The Directors of the parent company have carried out a recovery analysis of the tax credits recorded on the balance sheet based on the taxable income estimated according to the Group's business plan, considering a period of 10 years as well as the usage limitations of said tax credits, in compliance with the current tax regulations in each case.

(In thousands of euros)

In the case of the Basque Country tax group, the business plan and its main assumptions are included in Note 6. In accordance with this business plan, the assigned amounts would be recovered within a period of 7 years. The plan enables the recovery of the assigned tax credits to be fairly justified.

In addition to the business plan used by the Group Management regarding the analysis of the recoverability of tax credits, as indicated in Note 6, the Group Management has performed a sensitivity analysis, reducing the results by 10%. In this scenario, the amounts recorded as deferred tax assets would be recovered within 8 years. As such, having seen through a sensitivity analysis, and considering that in that more conservative scenario the tax credits would be recovered in less than 10 years, Group Management understands that the asset recovered has not suffered any impairment in value.

Moreover, the Group's Managers have written off from the consolidated balance all the tax credits of the distribution segment (Almesa) amounting to 2.6 million euros.

The balance of deferred tax liabilities corresponds to the fiscal effect of revaluation of land by application of IFRS 1 as at 1 January 2004. The movement in the financial year 2016 and 2015 was as follows:

	Amount
Balance at 31 December 2014	**21,481**
Regularisation of tax rate	(345)
Others	281
Balance at 31 December 2015	**21,417**
Deferred tax liabilities arising from business combinations (Note 28)	6,074
Write-offs (value impairment of property, Note 6)	(739)
Transfer to held for sale (deconsolidation of automotive segment, Note 14)	(904)
Others	308
Balance at 31 December 2016	**26,156**

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016
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22. Provisions

Long term

	Staff adjustment plan	Others	Total
At 31 December 2014	1,662	1,960	3,622
Debit (credit) in the profit and loss account:			
Provisions	-	911	911
Reversal of provisions	(876)	(215)	(1,091)
Cancellation/payments	-	(437)	(437)
Transfers	(68)	-	(68)
At 31 December 2015	718	2,219	2,937
Debit (credit) in the profit and loss account:			
Provisions	388	-	388
Reversal of provisions (Note 27)	-	(202)	(202)
Cancellation/payments	(417)	(605)	(1,022)
Transfers	(163)	-	(163)
Transfer to assets held for sale	-	(22)	(22)
At 31 December 2016	526	1,390	1,916

Short term

	Staff adjustments plan	Provision of guarantees	Others	Total
At 31 December 2014	3,014	5,131	104	8,249
Debit (credit) in the profit and loss account:				
Provisions (Note 26)	124	3,507	-	3,631
Reversal of provisions (Note 26)	(96)	(1,930)	-	(2,026)
Cancellation/payments	(2,596)	(1,543)	(20)	(4,159)
Transfers	68	-	-	68
At 31 December 2015	514	5,165	84	5,763
Debit (credit) in the profit and loss account:				
Provisions (Note 26)	4	2,482	547	3,033
Application	(187)	(4,749)	(4)	(4,940)
Transfers	163	-	-	163
Removal from group	-	-	(16)	(16)
At 31 December 2016	494	2,898	611	4,003

(In thousands of euros)

a) The "staff adjustment plan" line item mainly covers the estimated costs for the adjustment and restructuring of staff set out in the Group's Competitiveness Plan. During the 2015 financial year, there were renegotiations of the conditions of the agreements. As such, and by virtue of the new conditions, the group subject to these agreements was reduced, with an impact on the profit and loss account of 0.9 million euros for financial year 2015, which were included as minor expenses for employee benefits. The remaining provisions cover the entirety of the Group's commitments in terms of the new conditions agreed upon in the 2015 financial year following the renegotiation.

b) The "Provision of guarantees" heading includes the expected liabilities in the normal course of supply operations to customers, which are mainly provisions for hedging of repair costs, inspections and other similar concepts. The new provisions adequately mitigate the risk estimated by the Group's Management.

   An amount of 2,916 thousand euros, considered in the application of the provision, has been recorded as Losses, impairment and changes in trade operations (Note 26), the same amount having been assigned to sales with the opposite sign (reducing sales) once the provision was applied.

c) The "Others" line item includes provisions constituted to cover expenses, losses, or to deal with probable or certain liabilities from ongoing disputes or other obligations derived in development of the Group's activities.

   Additionally "Other", in the short-term, includes the expenses generated by the emission of CO_2 gases in the production process, which amounted to 547 thousand euros (605 thousand euros in 2015 classified as long-term), to the extent that these emissions represent the allocated consumption allowances (Note 37.b)).

23. Operating income

	2016	2015
Sales of goods	194,928	278,065
Total revenue	194,928	278,065

Virtually all of the foreign currency amounts billed to customers totalling 74 million euros have been realised in dollars (134 million euros in 2015).

(In thousands of euros)

24. Other income

	2016	2015
Work carried out by the Group for property, plant and equipment	3,968	4,943
Allocated to income by deduction from investment in new fixed assets (Note 18 and Note 2.19)	1,206	1,242
Allocated to income by deduction from investment in R&D under intangible assets (Note 18 and Note 2.19)	396	619
Allocated to income by deduction from investment in R&D recorded in profit and loss account (Note 18 and Note 21)	-	975
Operating subsidies	232	598
Others	693	1,054
	6,495	9,431

During 2016, an amount of 547 thousand euros from the portion taken up by the allowances was allocated to results (Note 2.8) (2015, 605 thousand euros).

25. Expenses for employee benefits

	2016	2015
Wages, salaries and similar expenses	63,996	61,990
Social contributions	20,240	20,415
Contributions and provisions for pensions	1,860	1,718
	86,096	84,123

Given the Group's current activity levels (Note 6), during the 2016 financial year temporary redundancies were implemented in two of the Group's production plants (Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.L. (Sociedad Unipersonal)).

In the case of Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal), the redundancies began in the month of April. There were not a high number of redundancies, and this saved an estimated 0.5 million euros.

In the case of Productos Tubulares, S.L. (Sociedad Unipersonal), the redundancies took place starting in the month of May and it saved an estimated 1.4 million euros.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2016
(In thousands of euros)

The average number of Group staff of the activities who continue by category and members of the Board of Directors is as follows:

	2016	2015
Workers	1,018	1,022
Employees	463	401
Directors	11	12
	1,492	1,435

The average number of staff for financial year 2016 for the distribution segment, classified at 31 December 2016 as a discontinued operation, was 85 people (29 workers and 56 employees) (2015: 90 people (31 workers and 59 employees))

The average number of staff in 2015 in the automotive segment sold in 2016 was 266 people (179 workers and 87 employees).

The average number of employees during the year by the companies included in the consolidation with a disability greater than or equal to 33% by category is as follows:

	2016	2015
Workers	3	3
Employees	4	5
	7	8

As of 31 December 2016 and 2015, the distribution of staff to the corresponding continuing operations is as follows:

	2016			2015		
	Women	Men	Total	Women	Men	Total
Workers	19	1,037	1,056	25	946	971
Employees	131	332	463	106	292	398
Directors	2	9	11	3	10	13
	152	1,378	1,530	134	1,248	1,382

On the other hand, the staff at year-end 2016 for the distribution segment, classified as a discontinued operation, was 82 people (28 workers and 54 employees) (2015: 87 people (29 workers and 58 employees)).

From the staff at year-end 2015, 264 people (166 workers and 98 employees) belonged to the automotive segment sold during 2016.

(In thousands of euros)

26. Other expenses

The detail of this heading is as follows:

	2016	2015
External services	60,281	65,318
Taxes	854	447
Losses, impairment and changes in trade provisions (Note 11 and Note 22)	(392)	1,556
Other current operating expenses	2,097	1,759
	62,840	69,080

27. Other income / net (losses)

This heading includes the following items and amounts:

	2016	2015
Net profits/(losses) on property, plant and equipment, from assets held for sale and impairment of assets held for sale	(5,723)	603
Income from insurance	13,520	-
Other non-recurring income/(expense)	138	232
Reversal of provisions	202	1,687
Profit on disposal of investments (Note 1)	-	975
	8,137	3,497

During the first quarter of the 2016 financial year, several fires broke out in localised areas of the Amurrio plant of the parent company Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal).

The damage affected assets mainly corresponding to constructions, technical installations and machinery, with a net book value of 2.7 million euros at 31 December 2015. In addition, as a result of the damage caused in the fires, various inefficiencies are arising in the production process and the additional costs, up until 31 December 2016, are currently estimated at approximately 9 million euros and are listed in the profit and loss account on each corresponding paragraph.

The damage affected assets mainly corresponding to constructions, technical installations and machinery, with a net book value of 2.7 million euros at 31 December 2015. In addition, as a result of the fire there have been several expenses amounting to approximately 5.6 million euros and that are included in the profit and loss account under each corresponding heading (3.6 million euros are recorded under "other expenses"). Moreover, as a result of the assets affected and in order to continue production, the Group was faced with some inefficiencies in the production process and extra costs amounting to approximately 3.4 million euros, which have been claimed to the insurance company but which are unpaid to date.

The damages have been adequately covered by the insurance policies taken out by the Group and the insurance company has paid the Group advances for the final settlement of the claim amounting to 13.5 million euros in costs incurred to date (5.6 million euros approximately) and on orders for property, plant and equipment in progress (7.9 million euros approximately).

The insurance policy taken out by the Group covers the new replacement value of the assets affected by the fires and the Group has almost completed their replacement, pending the arrival and commissioning of some property, plant and equipment orders. No additional negative impacts are estimated to the Group's equity as a result of these fires. In any case, additional amounts which have not been assigned at year-end are being claimed from the insurance company.

In addition, after the decision to sell the distribution segment, the Group has re-estimated the fair value of the properties assigned to the distribution segment, recording a deterioration of the properties of 3 million euros in the profit and loss account at 31 December 2016.

28. Business combination

On 24 August 2016, the Group reached a binding agreement with the shareholders of the companies Rotary Drilling Tools USA, LLC, Tubular Repari, LLC, Rotary Drilling Holdings IV, LLC and Pipe Coatings International LLC to acquire their business consistent with the manufacture and processing of OCTG. The acquisition has been agreed upon in an environment in which companies were selling under the supervision of the reorganisation court regulated by chapter 11 of the Bankruptcy Act in the United States.

The agreement states that the Group acquires most of the assets of the selling companies mentioned above as well as all contractual rights, information relating to the business and, in general, all rights necessary for the development of the acquired business (including the brand). The Group assumes no liability in the operation except those arising from contracts signed regarding business. The business acquired is being established as a new company called RDT, Inc. of which the Group owns 100% of the share capital.

The transaction was concluded on 15 September 2016, following the completion of the formal conditions for the improvement of the acquisition.

The business purchased is located in Houston and is one of the main manufacturers in the segment; it has manufacturing installations specialising in high added value and its own innovative designs for tubular products developed in order to make a differential contribution to the requirements of the most advanced and competitive oil and gas drilling and production technologies.

(In thousands of euros)

Through RDT, Tubos Reunidos gains its own integral capabilities for processing and finishing in the USA for its OCTG manufactured at its Amurrio plant in Spain. With the acquisition, the Group additionally obtained logistic, cost and flexibility advantages, and also reinforcing the competitive positioning of Tubos Reunidos in the oil and gas market in North America, which has high growth opportunities, and also the possibility to expand to the Latin American market.

	Thousands of euros
Consideration transferred:	
- Cash paid	(19,543)
- Fair value of net assets acquired attributable to the parent company	31,766
Negative consolidation difference	**12,223**

The biggest impacts resulting from the allocation process of the price paid lies in consideration of fair value of the assets acquired. In this regard, there is a higher valuation of land, buildings, facilities and machinery, amounting to 18.4 million euros. Such reasonable values have been calculated based on independent expert appraisals (the appraisals were assigned to appraisal companies CBRE and Duff & Phelps). The deferred tax liability associated with such fair value has also been considered. Given that the fair value of the assets exceeds the price paid, a negative difference arises in business combinations.

The assets and liabilities arising from the acquisition in September 2016 are as follows:

	Thousands of euros
Property, plant and equipment (Note 6)	36,823
Intangible assets (Note 7)	223
Inventories	794
Total assets	**37,840**
Deferred tax liabilities (Note 21)	6,074
Total liabilities	**6,074**
Net assets acquired attributable to the parent company	**31,766**

The Group Management has reviewed the accounting and fair values of the net assets acquired without detecting any further impairment or liability that should be assigned. As part of this review, the Group has drafted a business plan covering the years 2017-2023.

The assumptions underlying the analysis by the Group are as follows:

- They have carried out a 7 year projection, calculating the residual value as perpetual income of a financial year that does not contain cyclical or seasonal information.
- The discount rate used (WACC) was 8.5% after tax.
- The real growth rate of terminal value is 0.5% above long-term inflation.

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

- Net amount of turnover: average increase of 16% from 2018 onwards.
- Margins. The Group Management has determined the budgeted EBITDA margin, based on market returns taking into account the type of activity of the company, reaching at the end of the plan an EBITDA margin of 29% on turnover.
- Investments in fixed assets: no significant investments are expected in the years projected as the assets acquired in the transaction are suitable for the volume of activity covered by the plan.

It is worth noting that the RDT market is a market of value-added products which are normally sold to end customers.

For projections, the Group Management has also considered the results and historical EBITDAs reached by the companies selling the acquired business.

From the aforementioned analysis of the projections, we obtain an assessment of the CGU's net assets that is somewhat higher than the value of appraisals made by independent experts.

The Group Management has conducted a sensitivity analysis of the plan by reducing the estimated results by 10%, obtaining a value higher than the fair value recorded in the business combination, amounting to 2 million euros. Also, the Group Management conducts an additional sensitivity analysis by increasing the WACC discount rate by 1% and reducing the perpetual growth rate by 0.25%, yielding a similar fair value of assets through the appraisals and which is listed as fair value in the business combination.

Therefore, after the analysis, the negative difference in business combinations has been recorded as income, taking the results of the appraisals received as fair value.

The movement of cash funds in the operation was:

	Thousands of euros
Amount paid	19,543
Cash and cash equivalents in the subsidiary acquired	-
Net cash outflow on acquisition	19,543

(In thousands of euros)

29. Financial income and expenses

	2016	2015
Financial income		
– Income from equity investments and other investment income	88	56
– Profit /(losses) on foreign currency transactions	1,363	(2,060)
Financial expenses		
– Interest on loans/bank credits and other external funds	(7,294)	(6,360)
Change in fair value of foreign currency derivatives that do not qualify as hedges	(954)	2,625
	(6,797)	(5,739)

30. Public administrations and income tax

a) Current balances with Public Administrations

The composition of current balances with Public Administration is:

	2016		2015	
	Debtors	**Creditors**	**Debtors**	**Creditors**
Value added tax	2,816	1,387	4,657	311
Income tax for individuals	-	314	-	1,629
Social Security agencies	43	1,777	37	1,915
Corporate tax	42	-	150	-
Others	293	-	355	716
	3,194	**3,478**	**5,199**	**4,571**

b) Reconciliation of accounting income and taxable income

	2016	2015
Current tax	-	-
Deferred taxes	732	7,539
	732	7,539

(In thousands of euros)

The parent Company has filed consolidated tax returns since financial year 1998. The current composition 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.

The Group's Corporate Tax for ongoing activities differs from the theoretical amount that would have been obtained by employing the average weighted tax rate applicable to the consolidated companies of the Group as follows:

	2016	2015
Profit before tax	(49,433)	(22,551)
Allocated to income tax credits and R&D (Note 24)	(1,602)	(2,751)
Consolidation adjustments with no tax effect	(9,723)	(500)
Permanent differences	22	54
Consolidated basis	(60,736)	(25,748)

The heading "Consolidation adjustments with no tax effect" which is adjusted for the calculation of the consolidated basis in 2016 corresponds mainly to the negative consolidation difference arising for business combinations (Note 28). In financial year 2015, it corresponds to an adjustment for reversal of provisions made at consolidated level, whose endowment in previous financial years had no tax effect.

c) Composition of tax expense

The composition of expenses from Corporate Tax is as follows:

	2016	2015
Tax calculated at the tax rates applicable to profits of each consolidated company (*), considering permanent differences	-	(8,109)
Tax deductions generated in the financial year (Note 20)	(40)	(233)
Consolidation adjustments and other items	(692)	803
Tax expense	(732)	(7,539)

(*) As of 31 December 2016 income before taxes of the consolidated companies is negative in all cases, and none of the group companies has collected its respective income tax.

At 31 December 2015, income before taxes is broken down into 29.1 million euros in losses of companies with negative result, of which there are certain companies with a negative result amounting to 0.3 million euros that have not collected the income tax.

A breakdown of tax expenses contributed by each group company (in thousands of euros) is displayed below:

	2016	2015
Tubos Reunidos, S.A.	-	(1,072)
Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) (TRI)	(610)	(6,677)
Productos Tubulares, S.A. (Sociedad Unipersonal) (PT)	(992)	(3,173)
Tubos Reunidos Premium Threads, S.L. (TRPT)	(40)	(98)
Other minor areas	-	29
Consolidation adjustments and other items (*)	910	3,452
Tax expense	(732)	(7,539)

(*) In addition to the above-mentioned consolidation adjustments, the allocation to income tax credits is included (Note 23).

Further, we include below the detail of the tax rates applicable to each tax group/company in the financial years 2016 and 2015:

	2016	2015
Basque Country tax group	28%	28%
Inauxa (**)	28%	28%
Almesa y Procalsa (*)	25%	25%
Edai S.L. y Edai TU (**)	28%	28%
Inaumex (**)	30%	30%
Inautex (**)	25%	25%
TRAME and RDT (companies located in the United States)	35%	35%
ACECSA	28%	25%

(*) Companies classified as a discontinued operation as of 31 December 2016.
(**) Automotive segment companies sold in 2016.

In addition to the aforementioned in Note 21, the applicable legislation for paying Corporate Tax from the 2016 financial year is that provided in Provincial Law 37/2013 of 13 December of the Provincial Territory of Álava for the Basque Country tax group.

The financial years open to inspection related to the taxes applicable to them vary for the different companies of the consolidated Group, although they generally cover the last three or four financial years, apart from Corporate Tax, for which financial year 2012 and subsequent years would be open for inspection.

(In thousands of euros)

As a result, among other reasons, of the various possible interpretations of the current tax legislation, additional liabilities may arise as a consequence of an audit. In any case, the Directors deem that said liabilities, should they arise, would not significantly affect the consolidated annual accounts.

31. Earnings per share

a) Basic

The basic earnings per share are calculated by dividing the profit attributable to parent Company shareholders between the average weighted number of common shares in circulation during the financial year, excluding own treasury shares acquired (Note 15).

	2016	2015
Profit/(loss) attributable to company shareholders of ongoing operations	(47,593)	(14,889)
Average weighted number of nominal shares in circulation (thousands)	174,370	174,289
Basic earnings/(losses) per share (euros per share)	(0.273)	(0.085)

	2016	2015
Profit/(loss) attributable to company shareholders of discontinued operations	(2,581)	(1,299)
Average weighted number of nominal shares in circulation (thousands)	174,370	174,289
Basic earnings/(losses) per share (euros per share)	(0.015)	(0.007)

b) Diluted

The diluted profit/loss per share is calculated by adjusting the weighted average number of common shares in circulation in order to reflect the conversion of all of the potential common diluted shares. The Company has no potential common diluted shares.

32. Dividends per share

No distribution of dividends has been adopted for the 2016 financial year.

During financial year 2015 the Company agreed on the distribution of a dividend against the result of the 2014 financial year of 0.0115 euros per share. The number of treasury shares on the date of payment of dividends amounted to 323,500 shares in 2015.

(In thousands of euros)

33. Cash generated from the operations

In accordance with the provisions of IFRS 5, the cash flow of the discontinued operations have been broken down in Note 14, including in this note 33 the cash generated from both operations (ongoing and discontinued).

	2016	2015
Profit for the period	(51,237)	(15,212)
Adjustments of:		
– Taxes (Note 5)	1,950	(6,788)
– Amortisation of property, plant and equipment (Note 6)	23,594	24,661
– Reversal of impairment of property, plant and equipment	(82)	-
– Impairment from assets held for sale (Notes 14)	952	385
– Amortisation of intangible assets (Note 5)	3,506	3,554
– Amortisation of property investments (Note 8)	121	12
– (Profit)/loss on sale of property, plant and equipment/assets held for sale (Note 27)	5,723	(1,179)
– Other income related to fixed assets (subsidies) (Note 24)	(1,602)	(2,836)
– Variation in fair value of derivative financial instruments (Note 29)	954	(2,625)
– Net allocations in provisions (Notes 11, 12 and 22)	(1)	(2,054)
– Profit on disposal of investments (Note 14.3)	(3,952)	(975)
– Income from interest and equity investments (Note 29)	(88)	(62)
– Interest expenses (Note 29)	7,294	6,921
– Foreign exchange differences (Note 29)	(1,363)	1,401
– Other adjustments to income (*)	(8,356)	1,290
Variations in circulating capital:		
– Inventories (Note 12)	4,004	17,273
– Trade and others accounts receivable (Note 11)	17,885	28,122
– Changes in provisions (payments) (Note 22)	(2,437)	(4,261)
– Suppliers and other accounts payable (Note 19)	10,698	(21,133)
– Other current assets	(415)	-
Cash generated from operations	7,148	26,494

(*) This amount includes the Negative Consolidation Difference of 12.2 million euros (Note 28), net of other provisions collected.

Explanatory notes to the cash generated by operations

Within the variation in working capital, the following effects of particular relevance were considered:

- Inventory: the inventory figure at 31 December 2016 does not include the part classified as a discontinued operation (Note 14). Therefore, in order to calculate the inventory variation we must take into account the removal of the corresponding Automotive segment in July 2016 (10.6 million), together with those in the distribution business at year-end (5.7 million) and the inflow of inventory in the acquisition of RDT (0.8 million).

- Trade and other accounts receivable: at 31 December 2016 there are a number of customers within the distribution segment amounting to 1.1 million (Note 14) and the removal of the automotive segment involves a customer drop amounting to 9.3 million euros. In addition, the differences in existing exchange rates have been considered.

- Suppliers and other accounts receivable: similarly at 31 December 2016 there are a number of suppliers within the distribution segment amounting to 2.4 million euros (Note 14) and the removal of the automotive segment amounts to 15.4 million euros.

34. Contingencies

The Group has contingent liabilities for bank and other guarantees related to the normal course of business with a limit of 4.7 million euros (3.7 million euros in 2015) from which no significant liability is expected to arise. These guarantees correspond mainly to technical guarantees to comply with commercial activities.

35. Commitments

a) Commitments from fixed asset purchases

The committed investments in the balance sheet dates (not incurred) amounted to 6 million euros in 2016 and 15 million euros in 2015.

b) Financing investment commitments

These investments will be financed via payment agreements with suppliers and providers of equipment and other assets, as well as with the expected cash generation (Note 3.1.c).

36. Related party transactions

The transactions outlined below were carried out with related parties:

a) Transactions with shareholders

All of the sale and purchase operations of goods and services are carried out at market prices similar to those applicable to unrelated third parties.

Below we have attached the balances, expressed in thousands of euros, held at 31 December 2016 and 2015 with BBVA Group, the Group's main shareholder, broken down by item, as well as the conditions of contracts:

2016 Financial Year

Item	Available balance	Last maturity	Guarantees
Loans	44,388	2021	Personal
Credit facilities	2,162	-	-
Discounted bills	-	Annual renewal	Personal
Confirming	15,071	Annual renewal	Personal
Non-recourse factoring	1,894	-	Personal
	63,515		

2015 Financial Year

Item	Available balance	Last maturity	Guarantees
Loans	32,586	2020	Personal
Credit facilities	79	-	-
Discounted bills	323	Annual renewal	Personal
Confirming	13,089	Annual renewal	Personal
Non-recourse factoring	501	-	Personal
	46,578		

The amount of interest paid by all of the Group companies to BBVA Group during the 2016 financial year as remuneration for the aforementioned contracts and recorded on the consolidated profit and loss account amounted to 1,089 thousand euros (1,322 thousand euros in 2015).

b) Transactions with other related parties

	2016	2015
Financial expenses	194	14
	194	14

(In thousands of euros)

This corresponds to the financial expenditure associated with the loan that Tubos Reunidos Premium Threads, S.L. received from Marubeni Itochu Tubulars Europe Plc (Note 20).

c) Loans with other related parties

	2016	2015
Loans with related entities (Note 20)	6,087	3,934
	6,087	3,934

d) Compensation to key managerial personnel

The aggregate and annual compensation of the General Managers and similar expenses of all Group companies (managerial staff) who carry out their function under the direct supervision of the Governing Bodies, corresponding to five people, amounted to 1,382 thousand euros (2015, 1.359 thousand euros, seven people) as outlined in the following table:

	2016	2015
Short-term remuneration and compensation	1,382	1,299
Post-employment benefits	-	60
	1,382	1,359

The post-employment provisions paid during the 2015 financial year correspond to the provisions to the Social Protection System that the Group has in general for the entire staff via defined contributions to a Voluntary Social Welfare Entity (EPSV).

e) Compensation for shareholders of the Parent Company

The income accrued in the course of the financial years ended 31 December 2016 and 2015 by members of the Board of Directors of Tubos Reunidos, S.A. in their capacity as Directors of the Company, of any kind and whatever their cause, have risen as a whole and in total to 1,009 euros (2015, 1,239 euros). In addition, in 2016 and 2015, no contribution to social security plans for the benefit of members of the Board of Directors was made. The remuneration is outlined in the table below:

	2016	2015
Short-term compensation	1,009	1,239
	1,009	1,239

The Group has not committed to any benefits with its Directors, either on the long-term or as share-based payments, apart from the potential contributions to the social security plan indicated above.

Furthermore, in financial year 2015, a provision of 290,000 euros was recorded due to the estimation of an increase in the likelihood that the risk of an additional contribution to the social security system of one of the Directors will eventually materialise.

Moreover, in 2015, a member of the Board of Directors collected compensation for the termination of his employment in 2008, agreed upon in that year when he was not a Director, in an amount equal to an annuity of the fees he received in 2014 for services rendered.

The Group has not granted loans to members of the Board of Directors during the 2015 and 2016 financial years.

During this financial year, the parent company of the Group paid the civil liability insurance premiums of directors amounting to 175 thousand euros (2015: 175 thousand euros).

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

During the financial year 2016, those directors who have held positions on the Board of Directors have complied with the obligations under Article 228 of the revised text of the Capital Companies Act in their duty to avoid conflicts of interest in the parent Company. Similarly, both board members and persons related to them have refrained from engaging in presumed conflicts of interest provided in Article 229 of that standard, with no communications on possible conflict of interest being recorded, directly or indirectly, to be taken into consideration by the Board of Directors of the parent company.

37. Other information

a) Fees for auditors and their group companies or affiliates

Audit fees of all audit companies auditing Group companies amounted to 259 thousand euros (2015, 311 thousand euros).

The amount for financial years 2016 and 2015 also includes the audit services of interim annual accounts.

The main auditor provided other services to Group companies in financial year 2015 amounting to 66.8 thousand euros. In 2016, additional invoices for an amount of 21.9 thousand euros were generated by other companies which used the tax advisory services of PwC (2015, 18 thousand euros).

(In thousands of euros)

b) Environmental issues

Within its property, plant and equipment assets, the Group has facilities which aim at protecting and improving the environment, also carrying out work with its own staff and with the support of specialised external companies, all as part of the environmental strategic plan in which the Group is involved to minimise environmental risks associated with its activity and to improve its environmental management. The amounts of both investments made and expenses accrued in 2016 to protect and improve the environment amounted to 127 thousand and 1,592 thousand euros (2015, 153 thousand and 1,806 thousand euros) respectively, and they are recorded under the corresponding "Property, plant and equipment" heading of assets in the accompanying consolidated balance sheet and under "Other Expenses" in the accompanying consolidated profit and loss account.

Regarding allowances (Notes 2.8 and 7), on 27 August 2004, Royal Decree-Law 5/2004 was adopted, regulating the emissions trading regime of greenhouse gases, which aims to help fulfil the obligations under the Convention and the Kyoto Protocol. For its part, the Council of Ministers passed, on 15 November 2013, the final individual allowance of greenhouse gases for the period 2013 to 2020, with the Group being provided an allowance of 719 thousand tons of CO2.

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

	Allowances allocated (Tm.)
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 the financial year 2016, the amount of the costs of consumption allowances, which were recorded as a counterpart to the corresponding provision (Note 22) amounted to 547 thousand euros (2015: 605 thousand euros).

The estimation of consumption of allowances for 2016 shall not exceed the allowances allocated. Allowances consumed in the financial year 2015 did not exceed the allowances allocated.

The Group Management does not consider any kind of sanction or contingency arising from compliance with the requirements of Law 1/2005.

38. Subsequent events

As indicated in Note 3.1 c), during the months of February and March certain agreements were reached with financial institutions for a reorganisation process of the Group's debt. Said agreement and the suspensive conditions thereof are detailed in the aforementioned note.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT 2016
(In thousands of euros)

1. Development and business results

a. Financial and non-financial key indicators

Tubos Reunidos' activity in 2016 developed in the context of one of the worst crises in the industry. The collapse of oil prices, which posted all-time lows in January 2016 reaching 27.60 USD/barrel, implied a decrease of 76% from pre-crisis levels, which has led to sharp reductions in investments in the energy sector and therefore in the demand for seamless pipes.

Investments in drilling and oil and gas production have fallen by about 25% per year globally for two consecutive years, also a large number of power generation, refining and petrochemical projects have suffered cancellations and delays.

In addition, the entry into operation of new production capacity in the sector in line with pre-crisis growth demand expectations has led to a high increase in competition and, consequently, a significant drop in pipe prices globally.

Particularly, the North American market, one of the main markets for Tubos Reunidos, has had a greater decrease in demand, with a drop in the average number of active drilling platforms by 45.5% in 2016 and 71.5% cumulatively since 2014, given the global reduction of 31.8% and 55.5% respectively. This decrease in demand has been intensified for pipe manufacturers by inventory adjustments made by distributors.

In this context, in 2016 Tubos Reunidos continued to carry out a set of transformational actions aimed at increasing its overall competitive position:

- **It has maintained its development and positioning in high value-added products strategy:**
    - In 2015, Tubos Reunidos completed the implementation of the investments set out in its strategic plan, with the portfolio of new high value-added and industrialised products.
    - During 2016 the Group consolidated production processes, implemented a business strategy focused on new products and obtained approvals for new target customers.
    - The Group is committed to the development of new steels, special pipes and technologically advanced production processes to meet the growing demands in the energy sector and in international markets.

- **It has carried out corporate growth actions, increasing service and diversification in strategic markets:**

    - The company has extended its industrial presence and service to the United States with the purchase of the business of the American company Rotary Drilling Tools Inc. thus obtaining its own capabilities in Houston for the purpose of processing and finishing its pipe manufactured at the plant in Amurrio, which was previously done through a third party. This way the Group is vertically integrated towards the customer, offering improved service, competitiveness and flexibility. RDT is highly recognised in the market for its innovative OCTG solutions complementary to those of Tubos Reunidos, so that the integration allows it to extend the range of Premium products and provide a wider range of solutions to end customers. The price paid for all of the acquisition was 19.6 million euros.

    - On 13 May 2016, the Group inaugurated its new plant, Tubos Reunidos Premium Threads, together with its strategic partner Marubeni Itochu Steel Inc. (MISI). This paved the way for high added value OCTG pipe threading manufactured at the Amurrio plant, with JFE Steel Corporation premium threads. Tubos Reunidos now has access to new special product segments and geographic markets, with a differential value proposition and world class technology. The new plant is working at one hundred percent capacity, as planned for the first phase. Tubos Reunidos Group together with its partner MISI received a large order in 2016 from an independent oil company in Egypt that includes 11,000 TMs of high-added value pipe of Tubos Reunidos, which will be threaded at TRPT. This order, to be delivered over a period of approximately two years, is one of the largest OCTG that Tubos Reunidos has had in its history and the first with Premium threads.

- **It has completed its strategy of focusing on the piping business:**

    - In July 2016, the Group announced the divestment, together with the other shareholders of its automotive business, of all of its shares in the Inauxa and EDAI companies. The purchase price amounted to 33 million euros, and has been a surplus in the consolidated annual accounts of Tubos Reunidos of 4 million euros and a cash inflow of 15.9 million euros.

    - Tubos Reunidos considered the national distribution business of the Almesa subsidiary as a discontinued operation held for sale.

- **It has continued the implementation of its Efficiency and Transformation Plan:** since the beginning of the crisis, Tubos Reunidos has enabled all operational flexibility measures to adjust costs to lower demand levels. It has additionally been implementing an emergency and competitiveness plan in order to increase our efficiency and structurally reduce the cost structure of the Group. The measures include, among others:

  - The implementation of lay-offs and workforce reduction, salary reductions of the Board and Management Team.

  - Internal reorganisation with the aim of unifying criteria in the Group, achieving synergies and improving commercial / industrial action.

  - Efficiency programmes and programmes to improve productivity in all operational and industrial processes.

  - Increase in the learning curve of new processes and products with the objective of reducing losses and reprocessing.

  - Reduction and streamlining of structure.

  - Streamlining of procurement and renegotiation processes of all items of the supply chain.

  - Redefinition of logistic and internal and external transport processes.

  - Implementation of a cost savings plan in all lines of fixed and variable costs.

At the end of 2016 and beginning of 2017 there has been a rapid recovery of investment in non-conventional drilling technologies and oil and gas production in the United States and Canada (shale) supported by rising oil and gas prices, as well as improvements in their efficiency and competitiveness. The number of active drilling platforms in this market has recovered by 82% as of 31 December 2016 (815 active platforms) and 142% as of 17 February 2017 (1,082 active platforms) regarding the troughs reached on 27 June 2016 (447 active platforms).

The favourable market context at the end of 2016, the better positioning of Tubos Reunidos following the actions taken during the crisis and the European Union approval of anti-dumping measures for China's large diameter pipe in Europe have allowed the Group to close 2016 with an outstanding portfolio turnover 69% higher than that at 31 December 2016.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT 2016
(In thousands of euros)

The changes in 2016 in the scope of consolidation of Tubos Reunidos Group include the acquisition of the US company RDT, the start of activity in the TRTP threading plant and the divestment in the automotive business. The results obtained from the sale of the automotive business in July 2016 are presented as Discontinued Operations in the Consolidated Profit and Loss Account. Likewise, the national distribution business of the Group subsidiary Almesa has been reclassified as a discontinued operation held for sale, in line with the provisions of the Strategic Plan of divesting non-strategic businesses.

The net turnover of Tubos Reunidos in 2016 decreased by 29.9% due to the environment in the oil and gas sector, the lower investments in power generation, refining and petrochemical projects and the increased competition, which has impacted prices.

The results of the efforts made to adapt to the environment have not offset the effects of the sharp drop in volumes and reduced prices, which have impacted operating margins due to lower utilisation of production capacity and which have led the Group to post a negative EBITDA (*) of 15.5 million euros and a negative result of 50.2 million euros in the year.

(*) Calculated as the operating result plus the amortisation expense plus the impairment on property, plant and equipment.

b. Issues relating to the environment and the workforce

In the Human Resources Area, financial year 2016 has developed against the backdrop of the need of cost-containment and adaptation to the levels of activity and demand.

Among other measures, the Company has implemented salary reductions for the Board and the Management Team, has implemented temporary redundancies and has reduced the active workforce in Tubos Reunidos Industrial and Productos Tubulares. Simultaneously, the plan to rejuvenate the workforce through partial retirement with relief contracts has been maintained in these plants.

Tubos Reunidos has created employment with the opening of its new Tubos Reunidos Premium Threads plant and after the acquisition of the business of the North American company Rotary Drilling Tools, which closed financial year 2016 with 36 and 56 employees respectively, as of 31 December 2016.

Regarding training, in 2016 the plan to increase the hours dedicated to the prevention of occupational risks was fulfilled once again, a priority in all actions of the Tubos Reunidos Group, directed both at the versatility and labour flexibility and at Technology and Customer Service, with the aim of providing the workforce with the necessary versatility that will address with greater assurance and effectiveness both customer requirements and the necessary adaptation that involves fluctuations in demand.

For the Tubos Reunidos Group, Occupational Risk Prevention and respect for the environment remain a priority, seeking a balance between its activity and sustainable development, incorporating tools to move towards continuous improvement.

At Tubos Reunidos Industrial, within the section on Occupational Risk Prevention, it is worth noting that 2016, like 2014 and 2015, has been one of the best years in terms of prevention ratios supported by the final consolidation of the project to improve risk control awareness for managers. Also, the internal audit of the Prevention Management System according to OHSAS 18001 was also successful.

In Productos Tubulares, the second audit of the certification of its Integrated Management System (Quality, Environment and Prevention) was also successful in accordance with the requirements of ISO 9001:2008; ISO 14001: 2004 and OHSAS 18001: 20047

2. Liquidity and capital funds

The Company's management team focused during the financial year on the strict control of cash, working capital optimisation and strengthening liquidity.

In December 2016, net financial debt amounted to 194.7 (**) million euros, 26 million euros higher than at 31 December 2015 (***).

(**) Calculated as external funds (not counting loans with related entities) minus other current financial assets and cash and other equivalent liquid funds.

(***) For this purpose, the net financial debt data at 31 December 2015 were calculated as external funds (not counting loans with related entities) minus other current financial assets and cash and other equivalent liquid funds. The resulting amount has increased by 1.6 million euros, i.e. the net treasury of the automotive segment at 31 December 2015.

The Group's working capital (****) at December 2016 amounted to 30.6 million euros, a decrease of 43.9 million euros compared to December 2015.

(****) Calculated as the sum of inventories and customer balances less the supplier figure, outstanding remuneration payment, credit balances with public administrations and customer advances.

Payments for investments in the piping business, contracted both in this financial year and mainly in the previous financial years, amount to 25.3 million euros, of which 11.3 million euros were directed towards the new TRPT threading plant. Upon completion in 2015 of the investment plan of 150 million euros in new products and more competitive processes initiated in 2012, which implies a significant reduction in payments for investments in the coming years. The sale of the automotive segment in the year has lead to an income of 15.9 million euros in the third quarter of 2016. Likewise, the Group paid 19.6 million euros for the acquisition of the RDT business.

Tubos Reunidos has renewed loans and credit lines maturities over the long and short-term during 2016 in accordance with the plan.

The Group's net equity at year-end amounted to 182 million euros, with assets totalling 579 million euros.

As detailed in note 19 b) of the 2016 consolidated report and on the Tubos Reunidos website, the average payment period for suppliers is 79 days. The Company has launched a set of measures that are aimed primarily at identifying deviations through monitoring and periodic analysis of accounts payable to suppliers and the review of internal management procedures and conditions defined in the commercial operations subject to applicable regulations.

3. Main risks and uncertainties

The Report of the consolidated annual accounts, presented and formulated by the Board of Directors, in accordance with International Accounting Standards, describes the main risks and uncertainties of the Group's business in detail.

4. Important circumstances taking place after year-end

On 7 February 2017, Guillermo Ulacia was appointed Executive Vice Chairman to lead the implementation of the Efficiency and Transformation Plan as well as the Strategic Plan of the Company, thus beginning a new stage for the Group.

As indicated in note 38 of the Consolidated Report, the Group is in the process of reorganising its bank debt.

5. Information on the foreseeable development of the Company

Tubos Reunidos started financial year 2017 leaving behind the worst crisis ever experienced in the industry. Since its inception, the Group has made changes that allows it to be better prepared both to resist cycles and to obtain greater growth in recovery.

Unconventional technologies in the United States, and a more intensive demand for seamless pipe, are leading the growth in demand in the sector. Prices in this market are also rising significantly above those observed in raw material costs.

The Company recorded a high increase in orders in the fourth quarter of 2016, which remained at the beginning of 2017, mainly in the oil and gas market in North America and in the large diameter pipe segment in Europe, which allowed it to close the financial year with an outstanding portfolio turnover 69.2% higher than year-end 2015.

Tubos Reunidos considers that the stabilisation of oil prices and widespread improvements in competitiveness in the energy sector will allow a recovery of investments and projects in the power generation, refining and petrochemical sectors, as well as restoring the balance between supply and demand for pipes with the subsequent increase in prices.

Against the current market backdrop and thanks to the Group's strengths and continuity in implementing its strategic objectives and the Efficiency and Transformation Plan, Tubos Reunidos expects to significantly improve the results in the first quarter of 2017 as well as for the whole year compared to 2016.

With the addition of Guillermo Ulacia as Executive Vice Chairman since 7 February 2017, a new stage begins in Tubos Reunidos. The new Executive Vice Chairman of the Company will lead the implementation and development of a new business model – with the customer at the core of the company – that will incorporate new advanced manufacturing technologies to take a step further in the strategy of Company to establish itself as a competitive and value-added partner for its customers around the world.

6. R&D investment and activities

2016 was a year characterised by the cutbacks in investment of the Group once the investment plan for new products and productive processes was completed in 2015, which was the objective of the Tubos Reunidos Strategic Plan.

Thus, the contracting of new investments in 2016 has focused on maintenance, compliance with environmental regulations and Safety and Prevention needs and on ongoing research and development projects.

At Tubos Reunidos Industrial, investments in product development have focused on extending the supply range of OCTG Proprietary Grades to the market.

Regarding Productos Tubulares, within the actions related to health and safety, it is worth noting the conditioning works on the roads and paths both inside and outside of the plant, the adaptation of existing machinery in compliance with RD1215/97 and the placement of loading control systems on gantry cranes.

Concerning the research and development projects in Tubos Reunidos Industrial, these have focused on extending the range, both in size and types of steel, with the development of the Group's OCTG Proprietary Grades, in order to serve customers with more competitive and higher performance products. In Productos Tubulares, two ongoing projects were further developed for the extension of the dimensional range (DIM BERRI approved in calls for CDTi and Hazitek) and for the development of Pilger lamination processes with new materials (NEW_MAT approved by CDTi). Among others, in 2016 it has been possible to laminate 26" pipes for the first time within the DIM_BERRI R&D project.

7. Acquisition and disposal of treasury shares

During 2016, the only transactions with treasury shares took place under the Liquidity Contract. Both the conditions of the contract and the details of the specific transactions carried out have been duly informed to the CNMV and are available on the CNMV's website. In conclusion, during 2016, 6,093,224 treasury shares were purchased and 6,243,948 were sold, with treasury stock balance as of 31 December standing at 412,024 shares.

The Directors of the Company **"TUBOS REUNIDOS, S.A.",** with CTC number A / 48/011555 and registered office in Amurrio (Álava), in accordance with Article 253 of the Consolidated Capital Companies Act, has formulated the annual accounts and the management report of **TUBOS REUNIDOS, S.A. AND SUBSIDIARIES** for financial year 2016, all of which is detailed and identified as indicated below:

Consolidated annual accounts:

- Table of contents: transcribed into two (2) sheets of stamped paper, with numbers OL3523792 and OL3523793.
- Consolidated Balance Sheets: transcribed into one (1) sheet of stamped paper, number OL3523617.
- Consolidated Profit and Loss Account: transcribed into one (1) sheet of stamped paper, number OL3523618.
- Consolidated comprehensive income statement: transcribed into one (1) sheet of stamped paper, number OL3523619.
- Consolidated net equity statement of changes: transcribed into one (1) sheet of stamped paper, number OL3523620.
- Consolidated cash flow statements: transcribed into one (1) sheet of stamped paper, number OL3523621.
- Consolidated report: transcribed into one hundred and four (104) sheets of stamped paper, with numbers OL3523622 to OL3523725.

Management Report: transcribed into eight (8) sheets of stamped paper, numbers OL3523726 to OL3523733 together with the **Annual Corporate Governance Report (ACGR):** transcribed in forty-eight (48) sheets of stamped paper, with numbers OL3523735 to OL3523782.

In addition, the Directors of the Company attest that, to their knowledge, the annual accounts prepared in accordance with the applicable accounting principles give a true and fair view of the equity, financial standing and the results of the issuer, or of the companies included in the consolidation taken as a whole, and that the management report includes a true analysis of business growth, the financial results, and the position of the issuer and of the companies included in the consolidation taken as a whole, alongside a description of the main risks and uncertainties faced.

For all intents and purposes, and as an introduction to the aforementioned accounts and report, the following persons sign this document:

Mr Pedro Abásolo Albóniga
(Chairman-Other External)

Mr Guillermo Ulacia Arnaiz
(Director - Executive Deputy Chairman)

Mr Emilio Ybarra Aznar
(Deputy Chairman – Proprietary Director)

Mr Alfonso Barandiarán Olleros
(Proprietary Director)

Mr Alberto Delclaux de la Sota
(Director-Other External)

Mr Francisco José Esteve Romero
(Proprietary Director)

Mr Jorge Gabiola Mendieta
(Secretary - Independent Director)

Ms Ana Muñoz Beraza
(Independent Director)

Mr Enrique Portocarrero Zorrilla-Lequerica
(Proprietary Director)

Mr Roberto Velasco Barroetabeña
(Independent Director)

Ms Leticia Zorrilla de Lequerica Puig
(Proprietary Director)

QMC Directorships, S.L.
(On his behalf Mr Jacobo Llanza Figueroa)
(Proprietary Director)

Amurrio (Álava), on 30 March 2017