

TUBACEX, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS 31 DECEMBER 2007 AND 2006
 (Expressed in thousands of Euros) (Translation from the original in Spanish)

ASSETS	Note	2007	2006
Property, plant and equipment	5	99,879	89,585
Intangible assets	6	22,895	22,958
Investment property	7	-	3,513
Investments accounted for using the equity method		1,291	1,049
Non-current financial assets	8	1,142	5,596
Derivative financial instruments	9	1,466	1,078
Deferred tax assets	13	11,815	20,463
Total non-current assets		138,488	144,242
Inventories	10	246,933	201,926
Trade and other receivables	11	189,585	166,772
Current financial assets	8	9,337	9,572
Derivative financial instruments	9	1,456	-
Prepaid expenses		99	132
Cash and cash equivalents	12	17,183	16,971
Total current assets		464,593	395,373
Total assets		603,081	539,615

EQUITY	Note	2007	2006
Share capital		59,840	59,840
Share premium		17,108	17,108
Treasury shares		(2,519)	(2,519)
Other reserves		58,071	63,203
Translation reserve		(1,080)	1,153
Retained earnings		134,431	86,433
Total equity	14	265,851	225,218
LIABILITIES			
Interest-bearing loans and borrowings	16	4,960	6,689
Employee benefits	19	12,359	13,260
Deferred income		60	153
Other provisions	20	4,551	9,169
Deferred tax liabilities	13	1,584	1,407
Other non-current financial liabilities	17	1,589	1,457
Total non-current liabilities		25,103	32,135
Interest-bearing loans and borrowings	16	197,833	190,660
Derivative financial instruments	9	2,291	-
Trade and other payables	18	96,709	79,711
Other provisions	20	6,508	6,605
Current tax liabilities	23	8,786	5,286
Total current liabilities		312,127	282,262
Total equity and liabilities		603,081	539,615

The accompanying notes form an integral part of the 2007 and 2006 consolidated annual accounts.

CONSOLIDATED INCOME STATEMENT

TUBACEX, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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

	Note	2007	2006
Net sales		696,731	539,073
Other income	21	7,692	905
Increase in stocks of finished products and work in progress	10	29,088	6,951
Non-current self-constructed assets		3	195
Raw materials, other consumables and goods for resale	10	(441,802)	(321,650)
Personnel expenses	22	(94,675)	(85,357)
Amortisation, depreciation and impairment losses	5, 6 and 7	(16,693)	(16,746)
Other expenses		(90,872)	(76,085)
		89,472	47,286
Financial income		7,581	6,686
Financial expenses		(19,837)	(12,794)
Share of profit in companies accounted for using the equity method		243	43
Profit before income tax		77,459	41,221
Income tax expense	23	(20,798)	(10,274)
Profit for the year		56,661	30,947
Basic earnings per share (expressed in Euros)	15	0.432	0.236

CONSOLIDATED STATEMENTS OF CASH FLOWS

TUBACEX GROUP AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (INDIRECT METHOD) FOR THE YEARS ENDED

31 DECEMBER 2007 AND 2006 (Expressed in thousands of Euros) (Translation from the original in Spanish)

	2007	2006
Cash flows from operating activities		
Profit before income tax	77,459	41,221
Adjusted for:		
Amortisation and depreciation	18,134	16,746
Exchange gains/losses	2,311	-
Change in provisions	4,315	7,070
Financial income	(2,231)	(7,441)
Financial expenses	11,529	13,013
Share in profit of companies accounted for using the equity method	(242)	(43)
Profit on the sale of investment property	(882)	-
Losses on the sale of property, plant and equipment	920	168
Deferred government grants	(93)	(28)
Changes in working capital	111,220	70,706
Increase in trade receivables	(31,613)	(44,771)
Increase in inventories	(45,007)	(42,205)
Increase in prepaid expenses	33	-
Increase in trade and other payables	22,348	12,077
Decrease in provisions	(7,785)	(4,892)
Decrease in employee benefits	(2,146)	(1,034)
Cash from operations	47,050	(10,119)
Interest paid	(11,529)	(13,013)
Income tax paid	(8,473)	(5,554)
Net cash from operating activities	27,048	(28,686)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and intangible assets	271	683
Proceeds from sale of investment property	4,314	294
Proceeds from sale of financial assets	4,458	2,490
Interest received	1,292	6,363
Acquisition of property, plant and equipment	(29,710)	(13,887)
Acquisition of intangible assets	(556)	(344)
Acquisition of other financial assets	(156)	9,572
Other	54	(95)
Net cash from investing activities	(20,033)	5,076
Cash flows from financing activities		
Proceeds from other non-current liabilities	111	(1,427)
Proceeds from interest-bearing loans and borrowings	5,465	50,016
Dividends paid	(12,379)	(10,166)
Other	-	-
Net cash from financing activities	(6,803)	38,423
Net increase/(decrease) in cash and cash equivalents	212	(4,331)
Cash and cash equivalents at 1 January	16,971	21,302
Cash and cash equivalents at 31 December	17,183	16,971

The accompanying notes form an integral part of the 2007 and 2006 consolidated annual accounts.

TUBACEX, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
 (Expressed in thousands of Euros) (Translation from the original in Spanish)

	Share capital	Share premium	Treasury stock	Other reserves	Translation differences	Hedging reserve	Retained earnings	Total equity
Balance at 1 January 2007	59,840	17,108	(2,519)	63,203	1,153	-	86,433	225,218
Effect of foreign currency translation differences	-	-	-	-	(2,233)	-	-	(2,233)
Other movements	-	-	-	5	-	(1,421)	-	(1,416)
Profit for the year	-	-	-	-	-	-	56,661	56,661
Total income and expense recognised during the year	-	-	-	5	(2,233)	(1,421)	56,661	53,012
Appropriation of retained earnings	-	-	-	(5,037)	-	-	5,037	-
Dividends paid	-	-	-	-	-	-	(12,379)	(12,379)
Balance at 31 December 2007	59,840	17,108	(2,519)	58,171	(1,080)	(1,421)	135,752	265,851

TUBACEX, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
 (Expressed in thousands of Euros) (Translation from the original in Spanish)

	Share capital	Share premium	Treasury stock	Other reserves	Translation differences		Retained earnings	Total equity
Balance at 1 January 2006	59,840	17,108	(2,519)	61,817	2,501		67,275	206,022
Effect of foreign currency translation differences	-	-	-	-	(1,348)		-	(1,348)
Other movements	-	-	-	-	-		(237)	(237)
Profit for the year	-	-	-	-	-		30,947	30,947
Total income and expense recognised during the year	-	-	-	-	(1,348)		30,710	29,362
Appropriation of retained earnings	-	-	-	1,286	-		(1,286)	-
Dividends paid	-	-	-	-	-		(10,166)	(10,166)
Balance at 31 December 2006	59,840	17,108	(2,519)	63,103	1,153		86,533	225,218

The accompanying notes form an integral part of the 2007 and 2006 consolidated annual accounts.

TUBACEX, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED ANNUAL ACCOUNTS 31 DECEMBER 2007 AND 2006 PREPARED IN ACCORDANCE WITH EU-ENDORSED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Translation from the original in Spanish)

(1) NATURE, MAIN ACTIVITIES AND THE GROUP

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

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

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

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

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

(2) BASIS OF PRESENTATION

The accompanying consolidated annual accounts are presented in thousands of Euros and have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Tubacex, S.A. and its subsidiaries at 31 December 2007, as well as the consolidated results of its operations, changes in consolidated equity and consolidated cash flows for the year then ended. On 1 January 2004 the Group adopted EU-IFRS, and applied IFRS 1 "First-time Adoption of IFRS" on the same date.

The directors consider that the 2007 consolidated annual accounts, prepared on 14 March 2008, will be approved without significant changes.

2.1 Basis of preparation of the annual accounts

These consolidated annual accounts have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss and available-for-sale financial assets, which are measured at fair value.

2.2 Relevant accounting estimates, assumptions and judgements

The preparation of consolidated annual accounts in conformity with EU-IFRS requires management to make judgements, estimates and assumptions when applying group accounting principles.

Although estimates were based on the best information available at 31 December 2007, future events may require these estimates to be modified in subsequent years. The effect on the consolidated annual accounts of any modifications deriving from adjustments to be made in the coming years would be recorded prospectively.

In 2007, no significant changes have been made to judgements or accounting estimates used by the Company in prior years.

2.3 Standards and interpretations not applied

New accounting standards (IFRS) and interpretations (IFRIC) have been issued which are effective for accounting periods beginning on or after 1 January 2008. A summary of group management's assessment of the impact of these new standards is as follows:

IFRIC 11 IFRS 2- Group and Treasury Share Transactions

In November 2006, the IFRIC issued IFRIC 11 which develops the treatment of share-based payments among group companies in the individual annual accounts. This interpretation is effective for annual periods beginning on or after 1 March 2007. The Group does not currently engage in share-based payments and consequently, this interpretation will not affect its consolidated annual accounts.

IFRIC 12 Service Concession Agreements (pending adoption by the EU)

In November 2006, the IFRIC issued IFRIC 12 which regulates the accounting treatment of service concession agreements. This interpretation is

effective for annual periods beginning on or after 1 March 2007. The Group has not entered into any agreements within the scope of this interpretation, and consequently, considers that it will not have any effect on its consolidated annual accounts.

IFRS 8 Operating Segments

In November 2006 the IASB issued IFRS 8, effective as of 1 January 2009 although earlier application is permitted, which replaces IAS 14 Segment reporting. This standard amends the approach for identifying segments and defines an operating segment as a component of an entity for the purposes of preparing internal information which group management uses to make operating decisions. The Group has not yet decided whether it will apply this standard early, and the effect on the annual accounts will be the modification of reporting segments and the information reported by these segments.

Amendment to IAS 23: Borrowing Costs (pending adoption by the EU)

In March 2007, the IASB amended IAS 23 and eliminated the option of recognising all borrowing costs related to the acquisition or construction of assets which require a long period of time to be available for use or sale, immediately as an expense. This amendment is effective for annual periods beginning on or after 1 January 2009. The Group will assess the impact of this amendment for the first year in which it becomes applicable.

IFRIC 13: Customer Loyalty Programmes (pending adoption by the EU)

In June 2007, the IFRIC issued IFRIC 13, which provides guidance on how loyalty award credits should be accounted for. IFRIC 13 is effective for annual periods beginning on or after 1 July 2008. The Group has no customer loyalty programme within the scope of this interpretation, and consequently, it estimates that it will have no effect on the Group's consolidated annual accounts.

IFRIC 14, IAS 19 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (pending adoption by the EU)

In July 2007, the IFRIC issued IFRIC 14, which provides guidance on the effect of minimum funding requirements of defined benefit pension plans for the measurement of the pension assets or liabilities. IFRIC 14 is effective for annual periods beginning on or after 1 January 2008. The Group has no minimum funding requirements for its defined benefit pension plans, and consequently, it estimates that this interpretation will have no effect on the Group's consolidated annual accounts.

Amendment to IAS 1 Presentation of Financial Statements (pending adoption by the EU)

In September 2007, the IASB amended IAS 1, which mainly comprised changes to the denomination, presentation and content of the financial statements, as well as certain disclosure requirements. This amendment to IAS 1 is effective for annual periods beginning on or after 1 January 2009. The Group will assess the impact of this amendment for the first year in which it becomes applicable.

(3) DISTRIBUTION OF PROFIT

The proposed distribution of profits for 2007 of Tubacex, S.A., prepared by the directors and pending approval by the shareholders at their annual general meeting, and the approved distribution of 2006 profit, are as follows:

	Thousands of euros	
	2007	2006
Dividend of Euros 0.149 per ordinary share (Euros 0.093 in 2006)	19,831	12,379
Voluntary reserves	4,747	1,304
Other reserves	-	466
Total distributable profit	24,578	14,149

(4) SIGNIFICANT ACCOUNTING PRINCIPLES

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

A summary of the most significant principles is as follows:

4.1 Subsidiary companies

Subsidiary companies are all entities over which the Company exercises direct or indirect control. Control is defined as the power to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities, and is considered to be the potential voting rights that presently are exercisable or convertible held by the Group or third parties at year end.

The annual accounts or financial statements of subsidiaries are included in the consolidated annual accounts from the date that control commences until the date that control ceases.

As permitted by IFRS 1 First-time Adoption of IFRS, the Group has opted to apply the exemption whereby only business combinations which occurred after 1 January 2004, the date of transition to EU-IFRS, have been recognised using the purchase method. Acquisitions of entities prior to this date were recognised in accordance with generally accepted accounting principles in Spain (Spanish GAAP) once all necessary corrections and adjustments at the transition date were taken into account.

The cost of business combinations is measured as the aggregate of the fair values of assets contributed, liabilities incurred or assumed and equity instruments issued by the Group, in exchange for control over the acquiree, plus any costs directly attributable to the business combination. Adjustments to the cost of a business combination contingent on future events are included in the cost of the combination provided that the amount of this adjustment is probable and can be measured reliably.

The cost of business combinations is distributed among the fair values of the assets acquired, and liabilities and contingent liabilities assumed (net identifiable assets). This criteria is not applicable to non-current assets or disposal groups classified as held for sale, which are stated at fair value less costs to sell.

Any excess in the cost of the investment over the fair value of the net identifiable assets is recognised as goodwill. If the fair value of the net identifiable assets exceeds the cost of the acquisition, any excess remaining after reassessment is recognised in profit or loss.

Details of subsidiary companies and related information are shown in the Appendix to these notes.

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

The accounting policies of subsidiaries have been adapted to those of the Group for transactions and other events in similar circumstances.

The financial statements of consolidated subsidiaries reflect the same reporting date and period as that of the parent company.

4.2 Foreign currency transactions

4.2.1 Functional and presentation currency

The annual accounts for each group company are expressed in the functional currency of the primary economic environment in which the Company operates. The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency.

4.2.2 Transactions, balances and cash flows in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions.

Cash flows from transactions in foreign currency are translated into Euros in the consolidated statement of cash flows at the exchange rate prevailing at the transaction date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Nevertheless, foreign exchange gains and losses arising in monetary captions which form part of the net investment in foreign operations are recognised as translation differences in equity.

Exchange gains or losses on monetary financial assets or liabilities expressed in foreign currency are likewise taken to the income statement.

4.2.3 Translation of foreign operations

As permitted by IFRS 1 First-time Adoption of IFRS, the Group has opted to apply the exemption whereby accumulated translation differences generated prior to 1 January 2004 and recognised in the consolidated annual accounts are shown under retained earnings. As of that date, the translation into Euros of foreign operations is based on the following criteria:

- Assets and liabilities are translated at foreign exchange rates ruling at the balance sheet date;
- Revenues and expenses are translated at rates ruling at the transaction date; and
- Foreign exchange differences arising from application of the above criteria are recognised as a separate component of equity.

Differences on translation of deferred tax assets and liabilities denominated in foreign currencies and deferred income taxes are included in the consolidated income statement.

Exchange differences arising from the translation of the net investment in foreign operations recognised in equity are released into the consolidated income statement upon disposal.

4.3 Property, plant and equipment

4.3.1 Initial recognition

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

On 1 January 2004, the Group opted to apply the exemption regarding fair value or revaluation as deemed cost as permitted by IFRS 1 First-time Adoption of IFRS.

4.3.2 Depreciation

Property, plant and equipment are depreciated systematically over the useful life of the asset. The depreciable amount of tangible asset items is the cost of acquisition or deemed cost less the residual value. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

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

The Group reassesses residual values, useful lives and depreciation methods at each balance sheet date. Changes to the initially established criteria are recognised as a change in estimates.

4.3.3 Subsequent cost

After initial recognition of an asset, only costs which generate future economic benefits and which can be classified as probable and be reliably estimated are capitalised. Daily maintenance costs are therefore expensed as they are incurred.

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

4.3.4 Impairment

The Group evaluates and determines impairment losses and reversals of impairment losses on property, plant and equipment based on the criteria set out in note 4.11.

4.4 Intangible assets

4.4.1 Goodwill

Goodwill on business combinations (see note 4.1) as of the transition date (1 January 2004) represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or jointly controlled business at the date of acquisition.

Goodwill is not amortised but is tested annually for impairment, or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGU's) or groups of CGU's which are expected to benefit from the synergies of the business combination. After initial recognition, goodwill is measured at cost less accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

4.4.2 Greenhouse gas emission rights

Emission rights are recognised when allocated to the Group at cost less accumulated amortisation and impairment. Rights acquired free of charge or substantially below fair value are stated at fair value. The difference between this value and any consideration paid is recognised with a credit to deferred income.

Government grants are taken to income in line with actual emissions compared to total forecast emissions for the entire period for which they were assigned.

Emission rights are not amortised.

4.4.3 Other intangible assets

Other intangible assets acquired by the Group are stated at cost, less accumulated amortisation and impairment losses.

4.4.4 Useful lives and amortisation

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

The amortisable amount of intangible asset items is the cost of acquisition or deemed cost less the residual value.

The Group reassesses residual values, useful lives and amortisation methods at each balance sheet date. Changes to initially established criteria are recognised as a change in estimates.

4.4.5 Impairment

The Group evaluates and determines impairment losses and reversals of impairment losses on intangible assets based on the criteria described in note 4.11.

4.5 Investment property

Investment property at 31 December 2006 comprised land and buildings held to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of operations. The Group sold its investment property in 2007 (see note 7).

These investment properties mainly comprised a shopping centre in Torrejón de Ardoz (Madrid, Spain) belonging to the Group, which was let out to earn long-term rental income.

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

After initial recognition, the Company applies the same accounting criteria as for property, plant and equipment (see note 4.3). The depreciation methods and useful lives are reflected in this note.

Rental income is recognised in line with the criteria described in note 4.16.

4.6 Financial instruments

4.6.1 Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, financial liability or equity instrument, in accordance with the substance of the contractual agreement and the definitions of a financial asset, financial liability and equity instrument as set out in IAS 32 Financial Instruments: Disclosure and Presentation.

Financial instruments are classified as financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities. This classification depends on the nature of the instrument and the purpose for which it was acquired.

Regular way purchases and sales are accounted for at trade date, when the Group undertakes to purchase or sell the asset.

The Group adopted IAS 32 and IAS 39 on 1 January 2005. Consequently, financial assets and liabilities recognised under Spanish GAAP were designated at that date as financial assets or liabilities at fair value through profit or loss, or as available-for-sale financial assets.

4.6.2 Offsetting principles

A financial asset and a financial liability can only be offset when the Group has a legally enforceable right to set off the recognised amounts or intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.6.3 Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are those which are classified as held for trading or which the Group has, upon initial recognition, designated as such at and from 1 January 2005. A financial asset or liability is classified as held for trading if:

- it is acquired or incurred mainly for sale or repurchase in the immediate future
- it forms part of a portfolio of identified financial instruments which are managed jointly and for which there is evidence of a recent pattern of short-term profits, or
- it is a derivative, except a derivative which has been designated as a hedging instrument and complies with conditions for effectiveness or one which is a financial guarantee contract.

Equity instruments which do not have a quoted price in an active market and whose fair value cannot be measured reliably are not classified in this category.

Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the purchase or issue are recognised as an expense in the consolidated income statement.

After initial recognition, they are recognised at fair value and any changes are taken to profit and loss.

4.6.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and are different from those classified in other categories of financial assets. These assets are initially recognised at fair value, including transaction costs incurred, and are subsequently carried at amortised cost using the effective interest method.

4.6.5 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Group management has the intention and ability to hold to maturity, and which are different from those classified in other categories. Financial instruments classified in this category are measured using the same criteria as for loans and receivables.

During the year, the Group has not sold or reclassified any investments in this category.

4.6.6 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or do not comply with requirements for classification in the other categories.

Available-for-sale financial assets are recognised initially at fair value, including transaction costs directly attributable to the purchase.

After initial recognition, available-for-sale assets are carried at fair value and any losses or gains are recognised in consolidated equity, except for impairment and exchange rate gains and losses as described in note 4.2 (foreign currency transactions). Fair value is not reduced by any transaction costs incurred in the sale or disposal of the asset. The amounts recognised in equity are taken to profit and loss upon derecognition of the assets. However, interest calculated using the effective interest method and dividends are recognised in the income statement in line with the criteria described in note 4.15 (revenue recognition).

4.6.7 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In general, the Group applies the following systematic hierarchy to determine the fair value of financial assets and liabilities:

- The Group applies the quoted prices in the most advantageous active market to which it has immediate access, adjusted, where appropriate, to reflect any difference in credit risk between the instruments normally traded in that market and that which is being valued. The current bid price is used for assets held or liabilities to be issued and the asking price for assets to be acquired or liabilities held. If the Group has assets or liabilities which offset market risks, mid-market prices are used for establishing fair values for the offsetting risk positions, and the bid or asking price is applied to the net open position as appropriate.
- If no market prices are available, recent transaction prices are used, adjusted to current conditions.
- Otherwise, the Group applies commonly used measurement techniques employing market data as much as possible and, to a lesser extent, specific group data.

4.6.8 Amortised cost

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

4.6.9 Impairment

A financial asset or group of financial assets is impaired and has generated an impairment loss if there is objective evidence of impairment as a result of an event or events which have occurred subsequent to initial recognition of the asset, and where the event or events causing the loss have an impact on the estimated future cash flows from the asset or group of financial assets which can be reliably estimated.

The Group recognises impairment losses and defaults on loans and other receivables through recognition of a corrective provision for financial assets. When the impairment loss and default are considered to be irreversible, the carrying amount is eliminated against the corrective provision. Reversals of impairment losses are likewise recognised against the corrective provision.

Impairment of financial assets measured at amortised cost

For financial assets measured at amortised cost, impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, excluding future loan losses not incurred, discounted at the financial asset's original effective interest rate. The impairment loss is taken to profit and loss and is reversible if the decline can be objectively related to an event occurring after the impairment was recognised. Nevertheless, the reversal of the loss is limited to the amortised cost the assets would have had if the impairment loss had not been recognised.

Impairment of financial assets measured at cost

For financial assets measured at cost, impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for similar assets. These losses are not reversible and are therefore recognised directly as a reduction in the value of the asset and not as a corrective provision.

Impairment of available-for-sale financial assets

Declines in the fair value of available-for-sale financial assets are recognised directly in consolidated equity when there is objective evidence that the asset is impaired, even though the financial asset has not been derecognised. The amount of the loss recognised in profit or loss is the difference between the acquisition cost, net of any reimbursement or repayment of the principal, and current fair value, less any impairment loss previously recognised in profit or loss for the year.

Impairment losses relating to investments in equity are not reversible and are therefore recognised directly against the value of the asset and not as a corrective provision.

The increase in the fair value of debt instruments, which could objectively be related to an event after recognition of the impairment, is recorded against profit or loss up to the amount of the previously recognised impairment loss and any excess is recognised in equity.

4.6.10 Financial liabilities

Financial liabilities, including trade and other payables, not measured at fair value through profit or loss are initially recognised at fair value less any transaction costs directly attributable to issuance of the liabilities, and are subsequently carried at amortised cost using the effective interest method.

4.6.11 Derecognition of financial assets

Financial assets are derecognised when the rights to receive the related cash flows have matured or have been transferred and the Group has substantially transferred the risks and rewards inherent to ownership.

Upon derecognition of a financial asset the difference between its carrying amount and the sum of the consideration received, net of transaction costs and including the assets obtained or liabilities assumed and any profit or loss deferred in equity, is taken to the income statement.

For transactions in which the Group substantially retains all the risks and rewards inherent to ownership of a transferred financial asset the consideration received is recognised under liabilities. Transaction costs are recognised in the income statement using the effective interest method.

4.6.12 Derecognition and modification of financial liabilities

The Group derecognises all or part of a financial liability when the obligations included in the contract have been satisfied, cancelled or have expired.

The Group recognises the difference between the carrying amount of a financial liability (or part of a financial liability which has been cancelled or transferred to a third party) and the consideration paid, which includes any asset transferred other than cash or the liability assumed, with a debit or credit to the consolidated income statement.

4.7 Hedge accounting

Derivative financial instruments are initially recognised using the aforementioned criteria for financial assets and liabilities. Derivative financial instruments which do not comply with hedge accounting criteria are measured as financial assets and liabilities at fair value through profit or loss. Derivative instruments which meet hedge accounting criteria are initially recognised at fair value plus or less any transaction costs directly attributable to contracting or issuing the hedge, respectively.

The Group contracts cash flow hedges.

At the inception of the hedge, the Group designates and formally documents the hedge relationship, as well as the related objective and strategy. Hedge accounting is only applicable when at the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. (prospective analysis) and the actual results of the hedge can be reliably determined to be within a range of 80-125% (retrospective analysis).

For cash flow hedges on highly probable forecast transactions, the Group assesses whether these transactions are highly probable and if their risk exposure to changes in cash flows could ultimately affect profit or loss.

The Group only designates assets and liabilities and highly probable forecast transactions that involve a party external to the Group as hedged items.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. The ineffective portion of the gain or loss on the hedging instrument, as well as cash flows excluded from the hedge effectiveness test, are recognised under finance income or expenses.

The separate component of equity associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods, it shall reclassify into finance income or expenses the amount that is not expected to be recovered.

The Group recognises the associated gains and losses that were recognised directly in equity into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss in the same caption of the consolidated income statement.

The Group discontinues hedge accounting prospectively if the hedging instrument expires, is sold or if the hedge no longer complies with the conditions which qualified it for hedge accounting. In these cases, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity is not taken to profit and loss until the forecast transaction occurs.

4.8 Treasury stock

Treasury shares acquired by the Group have been presented separately at cost as a reduction in equity in the consolidated balance sheet, irrespective of the purpose for which they were acquired, and no gains or losses have been recorded as a result of transactions carried out with treasury shares.

The subsequent redemption of treasury shares will result in a decrease in share capital for the par value of these shares and positive or negative differences between the acquisition price and the par value of the shares are debited or credited to retained earnings.

4.9 Inventories

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

The formula applied by the Group for determining the cost of each type of inventory is as follows:

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

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

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

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

4.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows and are recognised as financial liabilities in the consolidated balance sheet.

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

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

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation, including those corresponding to equity accounted companies, to verify whether the carrying amount of these assets exceeds their recoverable amount.

Goodwill is tested annually for impairment, irrespective of whether any indication of impairment exists.

4.11.1 Calculation of recoverable amount

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

Negative differences arising from comparison of carrying amounts of assets with their recoverable amounts are expensed.

Impairment losses recognised for CGU's are initially allocated to reduce, where applicable, the goodwill attributed to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each of the assets, which is limited to the highest of its fair value less costs to sell, its value in use and zero.

4.11.2 Reversal of impairment

At each closing date the Group assesses whether there are any indications that impairment losses recognised in prior years no longer exist or have decreased. Impairment losses in respect of goodwill are not reversed. Impairment losses in other assets are only reversed if there has been a change in the estimates used to determine the recoverable amount.

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

The amount of the reversal of the impairment of a CGU is allocated to its assets, except goodwill, pro rata on the basis of the carrying amount of the assets, to the limit referred to in the previous paragraph.

4.12 Government grants

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

4.12.1 Capital grants

Capital grants awarded in the form of monetary assets are credited to deferred income at fair value in the consolidated balance sheet and are taken to other income in line with the depreciation of the financed assets.

The accounting treatment of grants for emission rights is described in note 4.4.2.

4.12.2 Operating subsidies

Operating subsidies received as compensation for expenses or losses already incurred, or for the purpose of providing immediate financial support unrelated to future expenses, are recognised as other income in the consolidated income statement.

4.12.3 Interest rate subsidies

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

4.13 Employee benefits

4.13.1 Pension commitments

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

4.13.2 Other long-term employee benefits

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

4.13.3 Profit-sharing and bonus schemes

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

4.13.4 Termination benefits

Indemnities paid for termination of employment which are unrelated to restructuring processes are recognised when the Group is demonstrably committed to terminating employment before the normal retirement date.

4.14 Provisions

4.14.1 General criteria

Provisions are recognised in the consolidated balance sheet when the Group has a present legal or constructive obligation as a result of past events; it is likely that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

The amounts recognised as a provision are the best estimate of the outflows required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties related with the provision and, where significant, the effect of the time value of money, provided that the outflows required in each period can be reliably measured.

Provisions do not include the tax effect or expected gains on disposal or sale of assets.

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

4.14.2 Provision for emission rights

Provision is made systematically for expenses related to the emission of greenhouse gases. This provision is cancelled once the corresponding free-of-charge and market-acquired rights granted by public entities have been transferred.

Provision is made under the assumption that these obligations will be cancelled:

- firstly, through emission rights transferred under the National Allocation Plan. The expense corresponding to this part of the obligation is determined based on the carrying amount of the emission rights transferred.
- through surplus emission rights. The cost of this part of the obligation is determined using the average price or average weighted cost of the emission rights.
- if the emission of gases necessitates the acquisition or production of emission rights because actual emissions exceed those which can be cancelled through the transfer of emission rights under a National Allocation Plan, or through surplus emission rights, whether acquired or produced, provision is made for the shortfall in rights. The cost is determined based on the best possible estimate of the amount necessary to cover the shortfall in rights.

4.15 Revenue recognition

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

Prompt payment, volume or other types of discounts which are considered probable when revenue is recognised are recorded as a reduction in revenue.

4.15.1 Goods sold

Revenues on the sale of goods are recognised when the following conditions have been satisfied:

- the significant risks and rewards of ownership of the goods have been transferred to the buyer.
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be reasonably measured.

4.15.2 Services rendered

Revenues on services rendered are recognised in the year in which they take place.

4.15.3 Dividends

Revenue from dividends is recognised when the Group's right to receive payment is established.

4.16 Leases

The Group disposed of certain assets during the year, the rights to use of which had been transferred through lease contracts.

Lease contracts in which the significant risks and rewards inherent to ownership of the asset are substantially transferred to third parties are classified as finance leases, and are otherwise recorded as operating leases.

4.16.1 Operating leases: lessor

Assets leased to third parties under operating lease contracts are included under investment properties in the consolidated balance sheet following the criteria described in note 4.5.

Lease income from operating leases is recognised on a straight-line basis over the lease term.

4.16.2 Operating lease: lessee

The Group has the right to use certain assets through lease contracts.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

4.17 Income tax

Income tax comprises current and deferred tax.

Current tax is the estimated tax payable or recoverable on the taxable income for the year using tax rates enacted at the consolidated balance sheet date and any adjustment to tax payable or recoverable in respect of previous years.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, whereas deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses, and the carryforward of unused tax credits. Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Current and deferred tax is recognised as income or an expense except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

4.17.1 Recognition of deferred tax liabilities

Deferred tax liabilities are recognised, except when they:

- arise from the initial recognition of goodwill or an asset or liability in a transaction which is not a business combination, and affects neither accounting nor taxable profit at the date of the transaction.
- correspond to differences associated with investments in subsidiaries and business combinations over which the Group is able to control the timing of the reversal thereof and it is not probable that the timing difference will reverse in the foreseeable future.

4.17.2 Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting nor taxable profit at the date of the transaction.

4.17.3 Measurement

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

The carrying amounts of deferred tax assets are reviewed by the Group at each balance sheet date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilised. Deferred tax assets which do not fulfil the previous conditions are not recognised in the consolidated balance sheet. Furthermore, at year end the Group reevaluates whether previously unrecognised deferred tax assets meet the criteria to be recognised.

4.17.4 Classification and offsetting

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

4.18 Segment reporting

A business segment is a distinguishable component of the Group that is engaged either in providing products or services which is subject to risks and rewards that are different from those of other segments within the Group.

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and rewards that are different from those of components operating in other economic environments.

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

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

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

4.20 Environment

The Group takes measures to prevent, reduce or repair any damage caused to the environment by its activities.

Costs incurred from these activities are recognised under other expenses in the year in which they are incurred. Nevertheless, the Group recognises environmental provisions and, where applicable, reimbursement rights by applying the general criteria described in note 4.14.

Assets acquired by the Group to minimise the environmental impact of its activity and protect and improve the environment, including the reduction or elimination of future pollution caused by the Group's operations, are recognised in the consolidated balance sheet in line with the recognition, measurement and disclosure criteria detailed in note 4.3.

(5) PROPERTY, PLANT AND EQUIPMENT

Details of and movement in property, plant and equipment in 2007 and 2006 are as follows:

	Thousands of euros										
	31.12.05	Additions	Disposals	Transfers	Translation differences	31.12.06	Additions	Disposals	Transfers	Translation differences	31.12.07
Cost											
Land	15,911	-	-	-	(13)	15,898	1,228	-	-	(12)	17,114
Buildings	67,311	252	-	69	(358)	67,274	1,207	-	-	(344)	68,137
Plant and machinery	280,608	9,881	(2,132)	1,155	(2,499)	287,013	14,312	(940)	316	(2,206)	298,495
Other installations, equipment, furniture and other assets	18,433	1,456	(1,332)	809	(107)	19,259	4,060	(2,087)	3	(102)	21,133
Advances and work in progress	1,637	2,298	(285)	(2,038)	(16)	1,596	8,903	(18)	(336)	(164)	9,981
	383,900	13,887	(3,749)	(5)	(2,993)	391,040	29,710	(3,045)	(17)	(2,828)	414,860
Accumulated depreciation											
Buildings	(49,413)	(1,832)	26	-	111	(51,108)	(1,814)	-	-	168	(52,754)
Plant and machinery	(216,019)	(11,878)	1,373	-	782	(225,742)	(12,085)	275	(5)	642	(236,915)
Other installations, equipment, furniture and other assets	(14,312)	(1,601)	842	-	38	(15,033)	(2,248)	1,193	22	167	(15,899)
	(279,744)	(15,311)	2,241	-	931	(291,883)	(16,147)	1,468	17	977	(305,568)
Accumulated impairment losses	(11,180)	-	475	-	1,133	(9,572)	(1,441)	537	-	1,063	(9,413)
Net balance	92,976	(1,424)	(1,033)	(5)	(929)	89,585	12,122	(1,040)	-	(788)	99,879

The charge to the provision for impairment of property, plant and equipment for the year amounted to Euros 1,441 thousand and has been recorded under other operating expenses.

5.1 Insurance

The Group has taken out several insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

5.2 Impairment

As a result of the decision taken at the end of 2002 to discontinue the industrial activity of the subsidiary Altx, Inc., a provision of Euros 14,000 thousand was made, with a charge to consolidated profit, in order to record the fixed assets of this company at their recoverable amount, as determined by an independent expert. At 31 December 2007 provisions for property, plant and equipment amounted to Euros 9,413 thousand (Euros 9,572 thousand in 2006).

(6) INTANGIBLE ASSETS

Details of and movement in intangible assets in 2007 and 2006 are as follows:

	Thousands of Euros				Total
	Works of art	Other intangible assets	Goodwill	Greenhouse gas emission rights	
31 December 2005	3,658	1,924	18,275	-	23,857
Exchange losses	-	(1)	-	-	(1)
Additions	-	326	-	62	388
Disposals	-	-	-	(44)	(44)
Reclassifications	-	(100)	100	-	-
Amortisation transfers	-	5	-	-	5
Amortisation charge	-	(1,247)	-	-	(1,247)
	3,658	907	18,375	18	22,958
Cost	5,711	10,816	18,375	18	34,920
Accumulated amortisation and impairment losses	(2,053)	(9,909)	-	-	(11,962)
31 December 2006	3,658	907	18,375	18	22,958
Exchange losses	-	(3)	-	-	(3)
Additions	111	418	-	27	556
Disposals	(38)	-	-	(45)	(83)
Amortisation charge	-	(546)	-	-	(546)
Application of impairment provisions	13	-	-	-	13
	3,744	776	18,375	-	22,895
Cost	5,784	11,189	18,375	-	35,348
Accumulated amortisation and impairment losses	(2,040)	(10,413)	-	-	(12,453)
31 December 2007	3,744	776	18,375	-	22,895

(a) Goodwill

Goodwill is mainly attributable to the acquisition of SBER and SBER Immobilien, and has been allocated to the Group's cash generating units in accordance with the country of operation and the business segment. Goodwill generated on the acquisition of these companies amounts to Euros 17,281 thousand in 2007 and 2006.

The recoverable amount of a CGU is calculated from its value in use. These calculations are based on cash flow projections from the financial budgets approved by management over a period of five years. Management determined projected gross margins based on past performance and forecast market development. Average weighted growth rates are in line with the forecasts included in industry reports. Cash flows subsequent to this five-year period are extrapolated using an estimated perpetual growth rate of 2%. The pre-tax discount rate applied to cash flow projections was 6.08% and reflects the specific risks related to the CGU.

Additionally, goodwill of Euros 644 thousand was generated on the acquisition of Schoeller-Bleckmann Technisches Service GmbH, and in 2004 the purchase of the French company Métaux Inox Services, S.A.S. gave rise to goodwill of Euros 350 thousand, which in turn contributed further goodwill since 2002 of Euros 100 thousand.

According to the estimates and projections available to the Group's directors, the forecast net cash flows attributable to these CGU's support the value of the goodwill recognised.

(b) Emission rights

Details of the fair value and initial value of non-monetary emission rights grants received by group companies in 2007 and 2006 are as follows:

Fair value	Thousands of euros		Fair value	Initial value
	2007	2006		
-	158	146	520	

Emission rights at 31 December 2007 amount to Euros 158 thousand (Euros 520 thousand at 31 December 2006) and form part of the group of installations dedicated to melting activity carried out by the subsidiary Acería de Alava, S.A.

Movement in the number of rights during 2007 and 2006 is as follows:

	Free	Paid	Total
Balances at 31 December 2005	22,455	-	22,455
Additions	22,455	5,000	27,455
Disposals	(22,455)	(3,513)	(25,968)
Balances at 31 December 2006	22,455	1,487	23,942
Additions	22,455	7,000	29,455
Disposals	(22,455)	(3,942)	(26,397)
Balances at 31 December 2007	22,455	4,545	27,000

(7) INVESTMENT PROPERTY

Details of and movement in investment property are as follows:

	Thousands of euros
31 December 2005	
Cost	5,676
Accumulated depreciation and impairment losses	(1,863)
	3,813
Net disposals	(112)
Depreciation charge	(188)
	3,513
31 December 2006	
Cost	5,503
Accumulated depreciation and impairment losses	(1,990)
	3,513
Net disposals	(3,513)
	-
31 December 2007	
Cost	-
Accumulated depreciation and impairment losses	-
	-

In prior years, the Company acquired a shopping centre in Torrejón de Ardoz (Madrid, Spain), the net carrying amount of which was Euros 3,513 thousand at 31 December 2006. A lease contract was entered into in 2002 which had a call option for a period of sixty-three months as of 1 October 2002 for a variable amount based on the exercise date: prior to 31 December 2004, Euros 4,207 thousand; Euros 4,407 thousand between 31 December 2004 and 2005; Euros 4,608 thousand between 31 December 2005 and 2006 and Euros 4,808 thousand between 31 December 2006 and 2007.

In the interval between the date of the lease contract and the deadline for exercising the call option, 31 December 2007, the premises remained leased to a third party for a monthly rent of Euros 10 thousand. Total rental income accrued on these premises in 2006, including other items, amounted to Euros 120 thousand and was recorded under "Other income" in the consolidated income statement at 31 December 2006.

On 5 February 2007 the tenant exercised the call option for a final agreed amount of Euros 4,314 thousand. The net carrying amount of the assets sold at the date of the transaction was Euros 3,513 thousand. The profit on the operation, Euros 801 thousand, was recorded under "Other income" in the consolidated income statement at 31 December 2007.

(8) FINANCIAL ASSETS

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

	Thousands of euros	
	2007	2006
Non-current		
Available-for-sale financial assets	718	5,358
Loans	92	212
Other financial assets	332	26
	1,142	5,596
Current		
Available-for-sale financial assets	9,138	9,066
Loans	189	456
Other financial assets	10	50
	9,337	9,572

Financial assets classified as non-current available-for-sale investments correspond to medium and long-term fixed-income investment funds. At 31 December 2006, part of these investments were used to secure long-term loans extended to a group company (see note 16), the outstanding principal of which amounted to Euros 609 thousand and which was repaid in full in 2007.

The fair value of these investment funds is Euros 718 thousand (Euros 5,194 thousand in 2006), based on the market value at 31 December 2007.

Financial assets included under current available-for-sale investments comprise financial investments in investment property funds, the fair value of which totals Euros 9,236 thousand.

On 23 September 2002 Tubacex Taylor Accesorios, S.A. sold its 40% investment in the share capital of COTUSA for Euros 2,734 thousand, and agreed to receive payment over a period of six years. At 31 December 2007 the remaining balance to be collected amounts to Euros 189 thousand (Euros 228 thousand in 2006) plus unaccrued interest of Euros 39 thousand, which falls due in 2008.

(9) DERIVATIVE FINANCIAL INSTRUMENTS

Details of derivative financial instruments at 31 December are as follows:

	'000	Par Unit	2007 Thousands of Euros			
			Assets		Liabilities	
			Non-current	Current	Non-current	Current
Derivatives held for trading						
Interest rate swaps (note 9.3)	60,000	Euros	1,466	-	-	-
			1,466	-	-	-
Hedging derivatives						
a) Cash flow hedges						
Forward sales of USD (note 9.1)	30,527	USD	-	681	-	(41)
Forward sales of GBP (note 9.1)	7,303	GBP	-	613	-	-
Forward sales of CAD (note 9.1)	4,643	CAD	-	63	-	-
Forward sales of USD (note 9.1)	24,491	USD	-	99	-	(74)
Swaps on raw material prices (note 9.2)	15,084	USD	-	-	-	(2,176)
			-	1,456	-	(2,291)
			1,466	1,456	-	(2,291)

	'000	Par Unit	2006 Thousands of Euros			
			Assets		Liabilities	
			Non-current	Current	Non-current	Current
Derivatives held for trading						
Interest rate swaps (note 9.3)	36,000	Euros	1,078	-	-	-
			1,078	-	-	-

9.1 Forward contracts for the sale and purchase of foreign currencies

The Group hedges its exposure to exchange rate fluctuations on import and export operations through forward currency contracts.

The total par value of all forward contracts for foreign currency sales amounts to Euros 35,217 thousand (Euros 38,857 thousand in 2006), and corresponds to the hedging of foreign currency balances already invoiced and estimated future collections of highly probable orders secured with clients. The value of hedged currencies amounts to US Dollars 30,527 thousand (US Dollars 28,863 thousand in 2006), Pounds Sterling 7,303 thousand (Pounds Sterling 10,452 thousand in 2006) and Canadian Dollars 4,643 thousand (Canadian Dollars 1,264 thousand in 2006).

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

	Thousands of euros					
	US Dollar	2007 Pound Sterling	Canadian Dollar	US Dollar	2006 Pound Sterling	Canadian Dollar
Up to one year	21,518	10,419	3,280	22,618	15,372	867

At 31 December 2007, cash flow hedges on forward currency sales show gains and losses of Euros 1,357 thousand and Euros 41 thousand, respectively, of which Euros 1,154 thousand and Euros 15 thousand, respectively, have been taken to profit and loss as they correspond to balances already invoiced.

The par value of all forward contracts for foreign currency purchases is Euros 16,726 thousand (Euros 21,375 thousand in 2006), which correspond to the hedged portion of future estimated cash outflows for the acquisition of certain raw materials which are acquired in foreign currencies and payable in cash. The hedges partially cover an amount of US Dollars 24,491 thousand (US Dollars 27,105 thousand at 31 December 2006) in estimated payments for these items to be made in the first five months of 2008.

Details of the par value of forward contracts for foreign currency purchases by term to maturity and type of currency at 31 December 2007 are as follows:

	Thousands of euros	
	2007 US Dollars	2006 US Dollars
Up to one year	16,726	21,375

At 31 December 2007, these contracts show gains and losses of Euros 99 thousand and Euros 74 thousand, respectively.

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

9.2 Call options on raw materials

In order to hedge fluctuations in the price of nickel used in the production process, the Group decided to use price swaps this year.

At 31 December 2007, the par value of all nickel price swaps amounted to US Dollars 15,084 thousand. Hedges in place at that date partially cover estimated payments for nickel purchases to be made during the first four months of 2008.

At 31 December 2007, these contracts show reasonable losses of Euros 2,176 thousand.

The fair value of these nickel price swaps has been estimated by discounting cash flows taking into account the difference between the market prices of this raw material from publicly available sources at 31 December and the fixed price guaranteed in each contract.

9.3 Interest rate swaps

The Group hedges its interest rate exposure through financial swaps, details of which at 31 December 2007 and 2006 are as follows:

Par value in thousands of Euros	31-12-07		
	Inception	Maturity	Interest rate
4,000	01.03.05	01.03.09	3.03%
6,000	01.09.05	01.09.09	3.0525%
5,000	01.09.05	01.09.10	2.9925%
10,000	01.12.05	01.12.10	2.8025%
5,000	01.09.05	01.09.10	3.03%
15,000	01.03.07	01.12.06	3.754%
15,000	01.06.07	01.12.10	3.9650%

Par value in thousands of Euros	31-12-06		
	Inception	Maturity	Interest rate
10,000	01.12.05	01.12.10	2.8025 %
6,000	30.06.03	31.12.07	3.20 %
6,000	01.09.05	01.09.09	3.0525 %
5,000	01.09.05	01.09.10	3.03 %
5,000	01.09.05	01.09.10	2.9925 %
4,000	01.03.05	01.03.09	3.03 %

The fair values of these forward contracts have been estimated by discounting cash flows using publicly available forward interest rates, amount to Euros 1,466 thousand (Euros 1,078 thousand at 31 December 2006) and have been recorded as an asset.

(10) INVENTORIES

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

	Thousands of euros	
	2007	2006
Goods for resale	27,751	19,369
Raw materials and goods for conversion	83,088	74,712
Work in progress	57,453	43,126
Finished products	77,578	64,700
Other items	1,063	19
	246,933	201,926

Details of raw materials, other consumables and goods for resale during 2007 and 2006 are as follows:

	Thousands of euros	
	2007	2006
Raw materials, other consumables and goods for resale		
Net purchases	458,560	359,228
Net increase in inventories	(16,758)	(37,578)
	441,802	321,650

Net sales made in currencies other than the Euro are as follows:

	Thousands of euros	
	2007	2006
U.S. Dollar	261.734	127.993
Norwegian Krone	81	6
Canadian Dollar	2.832	5
Sterling Pound	16	207

(11) TRADE AND OTHER RECEIVABLES

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

	Thousands of euros	
	2007	2006
Trade debtors for sales and services rendered	161,052	143,114
Trade loans with companies accounted for using the equity method	561	234
Sundry debtors	1,071	1,355
Public entities	28,096	23,478
	190,780	168,181
Provisions	(1,195)	(1,409)
	189,585	166,772

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

	Thousands of euros	
	2007	2006
Tax authorities		
VAT	26,884	22,291
Other items	1,212	1,187
	28,096	23,478

(12) CASH AND CASH EQUIVALENTS

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

	Thousands of euros	
	2007	2006
Cash in hand and at banks	17,013	13,174
Short-term deposits with banks	-	19
Short-term deposits and other liquid investments	170	3,778
	17,183	16,971

At 31 December 2006, short-term deposits included Euros 998 thousand corresponding to the liquidating value of money market investment funds.

(13) DEFERRED TAXES

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

	Thousands of euros			
	Assets		Liabilities	
	2007	2006	2007	2006
For provisions	1,785	1,863	-	-
For other items	1,727	1,220	1,584	1,407
Tax loss carryforwards	1,191	9,032	-	-
Deductions and credits	7,112	8,348	-	-
	11,815	20,463	1,584	1,407

Details of movement in deferred tax assets and liabilities which has been recognised as deferred tax income/(expense) in the consolidated income statement are as follows:

	Thousands of euros			
	Assets		Liabilities	
	2007	2006	2007	2006
For provisions	(78)	643	-	-
For other items	507	886	(177)	(267)
Tax loss carryforwards	(7,841)	(4,265)	-	-
Deductions and credits	(1,236)	(448)	-	-
Total (note 23)	(8,648)	(3,184)	(177)	(267)

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

	Thousands of euros	
	2007	2006
Deferred tax assets	3,162	-
Tax loss carryforwards	-	5,164
Deductions and credits	6,168	6,499
Total assets	9,330	11,663
Deferred tax liabilities	(1,267)	(1,407)
Net amount	8,063	10,256

(14) EQUITY

14.1 Capital

At 31 December 2007 and 2006 share capital is represented by 132,978,782 shares of Euros 0.45 par value each, fully subscribed and paid. All shares have equal voting and profit-sharing rights, except for treasury shares, the voting rights of which have been suspended and the profit-sharing rights of which are attributed in proportion to the remaining shares. The Company's entire share capital is listed on the Spanish organised stock market.

There are no transfer restrictions on shares in the parent.

At 31 December 2006 no legal entity directly or indirectly held more than 10% of the share capital of Tubacex, S.A.

At 31 December 2007, Larreder, S.L. directly or indirectly holds 18.088% of the share capital of Tubacex, S.A.

Pursuant to the Spanish Companies Act, the shareholders at their annual general meeting held on 24 May 2006 agreed to amend various articles of the Company's by-laws, inter alia, article 13, which prohibited any shareholder from casting more than 5% of the total number of votes. As a result of this agreement, this article establishes that each share will constitute one vote, agreements will be adopted on a majority basis and the chairman's casting vote will not be admitted.

14.2 Share premium

This reserve is freely distributable.

14.3 Other reserves

Details of other reserves at 31 December 2007 and 2006 are as follows:

	Thousands of euros	
	2007	2006
Legal reserve	11,968	11,502
Voluntary reserves		
Other parent company reserves	39,820	45,317
Other reserves	6,283	6,384
	58,071	63,203

Legal reserve

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

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

Other parent company reserves

This corresponds to voluntary reserves, which are freely distributable.

14.4 Treasury shares

At 31 December 2007 and 2006 the Group holds 1,915,306 treasury shares.

Details of shares held by the parent company at 31 December 2007 and 2006 are as follows:

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

14.5 Translation differences

As permitted by IFRS 1 First-time Adoption of IFRS, the Group has opted to apply the exemption concerning translation differences. As a result, translation differences included under equity refer to those generated after 1 January 2004.

14.6 Dividends and restrictions on dividend distribution

Dividends on 2006 profit distributed by Tubacex, S.A. in 2007 amounted to Euros 12,379 thousand (Euros 10,166 thousand in 2006), which is equivalent to Euros 0.09 per share (Euros 0.08 per share in 2006).

14.7 Leverage ratio

The objectives of the Group in managing shareholders' equity are to safeguard its ability to operate as a going concern in such a way that it continues to generate profits for shareholders, benefits other interested parties and maintains an optimal capital structure in order to reduce the cost of capital.

With a view to maintaining and adjusting its capital structure, the Group may adjust the amount of dividends payable to shareholders, reimburse capital, issue shares or sell assets in order to reduce debt.

Like other groups in the sector, Tubacex controls its capital structure through the leverage ratio, which is calculated as net financial debt over equity. Net debt is determined as the sum of current and non-current interest-bearing loans and borrowings and other non-current liabilities, less cash and cash equivalents.

The ratios for 2007 and 2006 have been determined as follows:

	Thousands of euros	
	2007	2006
Total financial debt	204,382	198,806
Less: cash and cash equivalents	(17,183)	(16,971)
Net debt	187,199	181,835
Equity	265,851	225,218
Debt ratio	70.41 %	80.74 %

(15) EARNINGS PER SHARE

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

	Thousands of euros	
	2007	2006
Profit attributable to ordinary shareholders	56,661	30,947
Weighted average number of ordinary shares outstanding	131,063,476	131,063,476
Basic earnings per share (Euros)	0.432	0.236

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

	2007	2006
Ordinary shares in circulation at 1 January	132,978,782	132,978,782
Effect of treasury shares	(1,915,306)	(1,915,306)
Weighted average number of ordinary shares in circulation at 31 December	131,063,476	131,063,476

(16) INTEREST-BEARING LOANS AND BORROWINGS

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

	Thousands of euros	
	2007	2006
Non-current		
Bank loans	4,960	6,689
Current		
Credit facilities	152,154	155,594
Short-term loans	23,982	19,721
Current portion of long-term debt	2,654	6,036
Discounted notes	6,369	4,381
Advances on exports	494	3,100
Import credit facilities	10,449	-
Bank overdrafts	1,257	1,404
Interest	454	424
Other	20	-
	197,833	190,660

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

The effective interest rates of bank loans during 2007 and 2006 have fluctuated between Euribor + 0.3% and Euribor + 1% in 2007 (Euribor + 0.3% and Euribor + 1% in 2006).

Long-term maturities of bank loans at 31 December 2007 and 2006 are as follows:

Maturity	Thousands of euros	
	2007	2006
Two years	1,516	1,821
Three years	616	1,516
Four years	482	616
Five years	492	482
Remainder	1,854	2,254
	4,960	6,689

A group company has mortgaged part of its property, plant and equipment to secure repayment of a portion of bank loans, amounting to Euros 4,150 thousand. Furthermore, a loan extended to a group company, the outstanding principal of which at 31 December 2006 amounted to Euros 609 thousand and which has been repaid in 2007, was secured by a pledge on units of an equivalent value in an investment fund (see note 8).

The effective interest rates of credit facilities during 2007 and 2006 have fluctuated between Euribor + 0.35% and Euribor + 0.65%. The combined limit of these credit facilities at 31 December 2007 amounts to approximately Euros 195,354 thousand (Euros 170,000 thousand in 2006).

Short-term loans correspond to bank loans extended to the SBER consolidated subgroup for financing its working capital requirements, and the effective interest rates fluctuated between 2.28% and 4.98% (2.45% and 4% in 2006). At 31 December 2006, part of these loans, amounting to 10,029 thousand, was secured through a pledge on a series of receivables derived from trade operations.

The Group has contracted interest rate swaps on certain credit facilities which convert variable interest to a fixed rate (see note 9).

(17) OTHER NON-CURRENT FINANCIAL LIABILITIES

Details of other non-current financial liabilities at 31 December are as follows:

	Thousands of euros	
	2007	2006
Non-current		
Long-term loans	1,568	735
Temporary receivership creditors	-	629
Others	21	93
	1,589	1,457

Long-term loans correspond to interest-free loans with a grace period of between two and four years on the principal extended by the Ministry of Science and Technology to two group companies for financing certain investments in property, plant and equipment.

Long-term maturities of these loans at 31 December 2007 and 2006 are as follows:

Maturity	Thousands of euros	
	2007	2006
Two years	320	152
Three years	320	160
Four years	248	159
Five years	248	107
Remainder	432	157
	1,568	735

In prior years the creditors settlements of Tubacex, S.A. and Acería de Alava, S.A., were approved by judicial decrees issued by the Court of First Instance of Amurrio (Alava), on 15 October and 6 November 1993, respectively, which affected all loans payable by these two group companies. The settlement established, inter alia, the interest-free payment of between 50% and 100% of the loans over different periods.

The expected long-term maturities of the debt arising from the creditors settlement at 31 December 2007 and 2006 is as follows:

Maturity	Thousands of euros	
	2007	2006
Two years	-	629

The debts arising from the temporary receivership creditors' settlement are interest-free.

The current portion of these debts has been recorded under trade creditors and other payables and details are as follows:

	Thousands of euros	
	2007	2006
Current		
Loans	287	143
Temporary receivership creditors	1,292	899
Other	93	-
(note 18)	1,672	1,042

(18) TRADE AND OTHER PAYABLES

Details at 31 December of trade and other payables are as follows:

	Thousands of euros	
	2007	2006
Trade payables		
Third parties	73,133	60,227
Associated companies	361	-
	73,494	60,227
Other payables		
Salaries payable	12,109	10,455
Social security	1,723	1,606
Public entities	5,656	5,903
Current portion of temporary receivership creditors (note 17)	1,292	899
Current portion of loans (note 17)	287	143
Other debts	2,148	478
	23,215	19,484
	96,709	79,711

(19) EMPLOYEE BENEFITS

Movement in the provision for employee benefits during 2007 and 2006 is as follows:

	Substitution contracts	Thousands of euros	
		Other commitments with personnel	Total
Balances at 31 December 2005	8,138	5,729	13,867
Transfers	311	(233)	78
Expense for the year	-	349	349
Benefits paid	(1,034)	-	(1,034)
Balances at 31 December 2006	7,415	5,845	13,260
Reclassifications (note 20)	1,044	1,049	2,093
Reversals	(1,260)	(73)	(1,333)
Expense for the year	20	465	485
Benefits paid	(1,672)	(474)	(2,146)
Balances at 31 December 2007	5,547	6,812	12,359

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

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

In certain circumstances, labour legislation in Austria allows employees who have complied with a series of conditions to opt for partial retirement. Under this programme, employees work 50% of their working day until retirement and receive 75% of their full working salary day, with the remaining 25% paid by the Austrian Social Security.

At 31 December 2007 and 2006 the Group has made the necessary provisions to cover the liabilities estimated to accrue over the terms of the contracts mentioned above, amounting to Euros 5,547 thousand and Euros 7,415 thousand, respectively.

Other commitments with personnel mainly include certain legal obligations with SBER subgroup employees who joined the company prior to 1 January 2003, and which become due when they retire or leave the Company, in accordance with prevailing legislation in Austria. The total accrued obligation of this defined contribution plan has been calculated using accepted actuarial methods and assumptions based on the latest mortality tables available for this country, and amounts to Euros 5,632 thousand at 31 December 2007. The discount rate applied is 5.00% (4.50% in 2006).

Other commitments with personnel also include the estimated amounts accrued and payable in the future of retirement bonuses for employees of the SBER subgroup who have completed 25, 35 and 40 years' service. These bonuses are paid in one, two or three monthly instalments, respectively. At 31 December 2007, the accrued commitment amounted to Euros 993 thousand.

(20) OTHER PROVISIONS

Details of other provisions at 31 December are as follows:

	Thousands of euros	
	2007	2006
Non-current		
Other	4,551	9,169
Current		
Employee benefits	1,100	-
Other	5,408	6,571
Emission rights	-	34
	6,508	6,605

The movement in provisions during 2007 and 2006 is as follows:

	Thousands of euros				
	Life insurance	Other employee benefits	Emission rights	Other	Total
At 31 December 2005	201	-	-	13,744	13,945
Reclassifications	-	-	-	(300)	(300)
Charges	-	-	34	7,025	7,059
Applications	(201)	-	-	(4,691)	(4,892)
Reversals	-	-	-	(38)	(38)
At 31 December 2006	-	-	34	15,740	15,774
Reclassifications (note 19)	-	952	-	(3,045)	(2,093)
Charges	-	148	-	5,424	5,572
Applications	-	-	(34)	(7,751)	(7,785)
Reversals	-	-	-	(409)	(409)
At 31 December 2007	-	1,100	-	9,959	11,059
Non-current	-	-	-	4,551	4,551
Current	-	1,100	-	5,408	6,508

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

The "Other" caption includes provisions for potential trade relations-derived contingencies amounting to Euros 675 thousand and Euros 1,148 thousand at 31 December 2007 and 2006, respectively.

During 2007, the Group has made provision for onerous contracts amounting to Euros 1,410 thousand (Euros 950 thousand in 2006).

The Group has no contingent liabilities in respect of guarantees. However, it has extended bank guarantees to third parties to secure certain operations in the ordinary course of business for a total amount of Euros 2,900 thousand (Euros 3,762 thousand in 2006). The directors of the Group do not expect significant liabilities to arise on account of these guarantees.

(21) OTHER OPERATING INCOME

Details of other operating income for 2007 and 2006 are as follows:

	Thousands of euros	
	2007	2006
Operating leases	241	165
Operating subsidies	1,235	382
Profit on sale of investment property	882	-
Provision surplus	1,742	-
Other income	3,592	358
	7,692	905

(22) PERSONNEL EXPENSES

Details for 2007 and 2006 are as follows:

	Thousands of euros	
	2007	2006
Wages and salaries	70,533	62,390
EPSV contributions	1,993	941
Social Security	19,399	19,077
Other welfare benefits	2,117	1,492
Charge to provision for employee benefits	633	1,457
	94,675	85,357

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

	2007	2006
Directors, engineers and university graduates	125	107
Technical engineers, experts and qualified assistants	72	67
Middle management	84	82
Assistants	60	59
Senior clerks	160	161
Porters	4	6
Production staff	1,404	1,289
	1,909	1,771

(23) INCOME TAX

Details of income tax for 2007 and 2006 are as follows:

	Thousands of euros	
	2007	2006
Current tax	11,973	6,823
Deferred tax (note 13) Origin and reversal of temporary differences	8,825	3,451
	20,798	10,274

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

	Thousands of euros	
	2007	2006
Profit before income tax	77,459	41,221
Expected tax expense at parent company tax rate (28% in 2007 and 32.6% in 2006)	21,689	13,438
Permanent differences	(1,354)	1,623
Deductions recognised during the year and not applied	(32)	(1,234)
Difference in subsidiary tax rates	561	(377)
Tax credits for loss carryforwards applied and not recognised in prior years	(484)	(2,183)
Tax deductions applied and not recognised in prior years	(1,098)	(320)
Deferred tax assets applied and not recognised in prior years	-	(673)
Prior years' adjustments	932	-
Effect of changes in tax rates	584	-
Accounting expense for the year	20,798	10,274

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

	Thousands of euros	
	2007	2006
Current tax expense	11,973	6,823
Withholdings and payments on account	(3,187)	(1,537)
	8,786	5,286

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2007 the Company has open to inspection by the tax authorities all main applicable taxes since 31 December 2003. As a result of the treatment of certain operations, tax contingencies exist which, in the event of inspection, could result in additional tax assessments that cannot be objectively quantified at present. Nevertheless, the directors do not expect that any significant additional liabilities would arise in the event of inspection which would have a significant effect on the consolidated annual accounts taken as a whole.

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

The settlement of 2007 income tax for Tubacex, S.A., Acería de Alava, S.A., Comercial de Tubos y Accesorios Especiales, S.A., Tubacex Taylor Accesorios, S.A., Tubacex Tubos Inoxidables, S.A. and Tubos Mecánicos Norte, S.A. is regulated by Local Law 24 of 5 July 1996, and the amendments established in prevailing Local Law 13 of 26 March 2007, even though certain appeals have been filed against this legislation.

As the directors of the Company consider that the final outcome of the appeals will not have a significant effect on the annual accounts taken as a whole, they have calculated the income tax for 2007 and for the years open to inspection in accordance with local legislation prevailing at the end of each year.

(24) MANAGEMENT REMUNERATION

Remuneration accrued by key group management personnel during the years ended 31 December 2007 and 2006 is as follows:

	Thousands of euros	
	2007	2006
Current remuneration	2,628	2,467
Retirement benefits	134	106
	2,762	2,573

Additionally, target-related variable remuneration equivalent to 21.72% of total remuneration has been accrued in 2007.

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

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

During 2007 the members of the board of directors have accrued remuneration of Euros 1,323 thousand (Euros 1,101 thousand in 2006) in respect of all items, including executive salaries, items specified in the Company's by-laws and allowances for attendance at meetings and conferences.

At 31 December 2007 the directors hold no balances with the Group in respect of advances or loans.

At 31 December 2007 the Group has no obligations with current or former directors in respect of pension plans or life insurance schemes, nor has it extended any guarantees on their behalf.

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

During 2007 the members of the board of directors have not carried out operations with the Company or other group companies that fall outside normal activity or in conditions other than those prevailing in the market.

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

Pursuant to Law 26 of 17 July 2003, which amends Stock Market Law 24 of 28 July 1998 and the revised text of the Spanish Companies Act, approved by Royal Legislative Decree 1564 of 22 December 1989, the directors of Tubacex S.A. do not hold any investments in companies with a statutory activity which is identical, similar or complementary to that of the parent Company. However, details of management positions held or functions or activities carried out by these directors are as follows:

Director	Company	Statutory Activity	Positions and functions
Mr. Alvaro Videgain Muro	Acería de Alava, S.A.	Manufacture of steel	Chairman
	Comercial de Tubos y Accesorios Especiales, S.A.	Commercialisation of tubes	Chairman
	Salem Tube Inc.	Manufacture of tubes	Chairman
	Schoeller-Bleckmann Edelstahlrohr Immobilien AG	Real estate	Chairman
	Schoeller-Bleckmann Edelstahlrohr GmbH (SBER)	Manufacture and commercialisation of tubes	Chairman
	Tubacex Taylor Accesorios, S.A.	Manufacture of accessories	Chairman
	Tubacex Tubos Inoxidables, S.A.	Manufacture of tubes	Chairman
	Tubos Mecánicos, S.A.	Commercialisation of tubes	Chairman
	Tubos Mecánicos Norte, S.A.	Commercialisation of tubes	Chairman
	AltX Inc.	Manufacture of tubes	Chairman
Métaux Inox Services, S.A.S.	Commercialisation of tubes	Chairman	
Mr. Juan Garteizgogea Iguain	Tubacex Tubos Inoxidables, S.A.	Manufacture of tubes	Board member

(26) ENVIRONMENTAL INFORMATION

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

During the year ended 31 December 2007 the Group held environment-related investments of approximately Euros 6,802 thousand (Euros 6,651 thousand in 2006) and incurred environmental expenses of Euros 1,527 thousand (Euros 1,389 thousand in 2006), mainly relating to acid disposal, repairs and maintenance, and consultancy and independent professional audit services.

The Group has not received any environment-related grants or income during the year.

With the exception of a provision totalling Euros 341 thousand (Euros 72 thousand in 2006) recorded by a subsidiary located in the United States to cover a water pollution risk, the quantity of which has been assessed by an independent expert, the Group has not recorded any other provision during the year ended 31 December 2007 for possible environment-related risks, as the directors consider that no significant contingencies exist concerning possible litigation, indemnities or other items.

(27) AUDIT FEES

The firm auditing the consolidated annual accounts of the Group, and other related companies as defined in the fourteenth additional provision of legislation governing the reform of the financial system, have accrued fees and expenses for professional services during the years ended 31 December 2007 and 2006 as follows:

	Thousands of euros	
	2007	2006
Audit services	175	141
Other services	50	-
	225	141

These amounts include all fees for services rendered during 2007 and 2006, irrespective of the date of invoice.

Other auditors have accrued Euros 160 thousand for the audit of the 2007 annual accounts (Euros 155 thousand in 2006) of companies which form part of the consolidated Group and Euros 105 thousand for other services.

(28) FINANCIAL INFORMATION BY SEGMENTS

At 31 December 2007 the Group is comprised of the following business segments, the products and services of which are as follows:

- Seamless stainless steel tubes
- Carbon steel tubes

Inter-segment pricing is determined on an arm's length basis.

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

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

	Thousands of euros							
	Stainless steel tube segment		Carbon steel tube segment		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Total external revenues	647,447	506,061	49,284	33,012	-	-	696,731	539,073
Total segment revenue	647,447	506,061	49,284	33,012	-	-	696,731	539,073
Segment result	79,913	41,965	10,823	6,071	(1,264)	(562)	89,472	47,474
Unallocated expenses							-	(188)
Results from operating activities							89,472	47,286
Net finance costs							(12,256)	(6,108)
Share of profit in equity accounted investees	243	43	-	-	-	-	243	43
Income tax expense							(20,798)	(10,274)
Profit for the period							56,661	30,947
Segment assets	501,778	440,125	48,771	37,590	(1,300)	-	549,249	477,715
Investments in equity accounted investees	1,410	1,049	-	-	-	-	1,410	1,049
Unallocated assets							52,422	60,851
Total assets							603,081	539,615
Segment liabilities	111,508	102,525	7,959	7,830	1,300	-	120,767	110,355
Unallocated liabilities							216,463	204,092
Total liabilities							337,230	314,397
Capital expenditure	28,646	13,874	1,620	357	-	-	30,266	14,231
Depreciation	16,195	16,275	489	471	-	-	16,693	16,746

	Thousands of euros							
	Europe		United States		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
External revenues	508,677	368,325	103,956	93,974	84,098	76,774	696,731	539,073
Segment assets	510,105	453,519	34,422	22,286	4,722	1,910	549,249	477,715
Capital expenditure	27,474	13,163	2,736	1,066	56	2	30,266	14,231

(29) RISK POLICY AND MANAGEMENT

29.1 Financial risk factors

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

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

29.1.1 Market risk

- Raw material price risk

Since March 2007, the Group has been using raw material price swaps which are due to mature when production of the corresponding order commences, in order to ensure that fixed margins are obtained when the sale is closed.

- Foreign exchange risk

The Group operates on an international scale and is therefore exposed to foreign exchange risk on foreign currency operations, particularly in US Dollars. Foreign exchange risk arises on future commercial transactions involving raw material purchases, the sale of products in foreign currencies, recognised assets and liabilities and net investments in foreign businesses.

In order to control the foreign exchange risk on future commercial transactions involving raw material purchases, the sale of products in foreign currencies and recognised assets and liabilities, group companies employ forward currency contracts negotiated with financial entities. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are stated in a currency other than the Company's functional currency. The Group's finance department is responsible for managing the net position of each foreign currency using external, foreign currency forwards. Details of currency purchase and sale contracts at 31 December 2007 are shown in note 9.

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

The Group has various foreign business investments, the net assets of which are exposed to exchange rate risk, mainly US Dollars. The Group assumes the interest rate risk on the net assets of the Group's foreign operations in the US as they are not representative compared to total assets. At 31 December 2007, net assets in the US amounted to approximately Euros 29,000 thousand.

29.1.2 Credit risk

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

At 31 December 2007, the exposure of the Group's assets to this risk is mainly limited to committed loans under trade debtors for sales and services rendered and sundry debtors, the aggregate amount of which totals Euros 162,123 thousand (Euros 144,469 thousand in 2006). Due provision has been made to cover part of these loans, amounting to Euros 1,195 thousand (Euros 1,409 thousand in 2006), as the Group considers their recovery to be doubtful.

At 31 December 2007, unimpaired committed loans which are past due amount to approximately Euros 16,600 thousand. None of these loans is past due by more than 2 months, and the Group does not consider their recovery to be doubtful, as, on occasion, and for reasons other than the risk of default, normal business procedures result in collection delays.

29.1.3 Liquidity risk

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

Details of the maturities of non-current financial liabilities are shown in notes 16 and 17. The expected maturities of current liabilities are as follows:

- Interest-bearing loans and borrowings mainly comprise credit facilities which are renewed after three years.
- Tax liabilities are settled approximately within six months after 31 December 2007.
- The maturities of trade and other accounts payable are as follows:

	Thousands of euros	
	2007	2006
Less than 3 months	93,914	78,571
Between 3 and 12 months	2,796	1,140
	96,710	79,711

29.1.4 Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from current and non-current liabilities. Liabilities issued at variable rates expose the Group to cash flow interest rate risk while fixed-income loans expose the Group to fair value interest rate risk.

Non-current financial liabilities are not significant compared to total liabilities, and their contribution to interest rate risk is therefore low.

Current financial liabilities are however significant compared to total liabilities. Current interest-bearing loans and liabilities at 31 December 2007 amount to Euros 197,833 thousand (Euros 190,660 thousand in 2006). During 2007, average current bank loans totalled Euros 200 million. Accordingly, a rise or fall of 0.5% in market interest rates would have increased or decreased profit before income tax by Euros 1 million.

The fair values of the different categories in the consolidated balance sheet do not differ substantially from their carrying amount at 31 December 2007 and 2006.

DETAILS OF SUBSIDIARY COMPANIES

31 December 2007 and 2006

(Translation from the original in Spanish)

APPENDIX

Company	Registered Address	Direct	Porcentaje de participación		Direct	Indirect	Activity
			2007	2006			
Acería de Alava, S.A. (a)	Amurrio (Alava, Spain)	100%	-	100%	-	Manufacture of steel	
Comercial de Tubos y Accesorios Especiales, S.A. (COTUBES) (a)	Amurrio (Alava, Spain)	100%	-	100%	-	Commercialisation of tubes	
Tubacex & Cotubes Canadá Inc. (b)	Ontario (Canada)	-	100%	-	100%	Commercialisation of tubes	
Red Distribuidora de Tubos y Accesorios, S.A. (R.T.A.)	Llodio (Alava, Spain)	100%	-	100%	-	Commercialisation of tubes	
Schoeller – Bleckmann Edelstahlrohr Immobilien AG (c)	Ternitz (Austria)	100%	-	100%	-	Real estate	
Schoeller – Bleckmann Edelstahlrohr AG (SBER) (c)	Ternitz (Austria)	100%	-	100%	-	Manufacture and commercialisation of tubes	
Schoeller – Bleckmann Technisches Service GmbH (SBTG)	Ternitz (Austria)	-	100%	-	100%	Technical assistance services	
Schoeller – Bleckmann Technisches Service GmbH & Co. KG (SBT)	Ternitz (Austria)	-	100%	-	100%	Technical assistance services	
Schoeller – Bleckmann AS (SB Prag) (f)	Prague (Czech Republic)	-	100%	-	100%	Commercialisation	
Schoeller – Bleckmann Edelstahlrohr Deutschland GmbH (SBERD) (f)	Düsseldorf (Germany)	-	100%	-	100%	Commercialisation	
Schoeller – Bleckmann Tube France (SBTF) (f)	Paris (France)	-	80%	-	80%	Commercialisation	
Schoeller – Bleckmann Edelstahlrohr Phönix Kft (SBERH) (f)	Budapest (Hungary)	-	100%	-	100%	Commercialisation	
Schoeller – Bleckmann Pipe & Tube Holding Inc.(SBPT) (g)	Houston (USA)	-	-	-	100%	Holding company	
Schoeller – Bleckmann Pipe & Tube Properties Inc. (SB Pipe&Tube Pr. Inc.) (g)	Houston (USA)	-	-	-	100%	Real estate	
Tubacex América Holding Corporation	Albany – New York (USA)	100%	-	100%	-	Holding company	
Altx Inc. (d)	Albany – New York (USA)	-	100%	-	100%	Manufacture of tubes	
Salem Tube Inc. (d)	Greenville – Pennsylvania (USA)	-	100%	-	100%	Manufacture of tubes	
Schoeller – Bleckmann Pipe & Tube Inc. (SB Pipe&Tube Inc.)	Houston (USA)	-	100%	-	100%	Commercialisation	
Tubacex Inc.	Houston (USA)	100%	-	100%	-	Holding company and commercialisation	
Tubacex Taylor Accesorios, S.A. (a)	Arceniega (Alava, Spain)	100%	-	100%	-	Manufacture of accessories	
Tubacex Tubos Inoxidables, S.A. (a)	Llodio (Alava, Spain)	100%	-	100%	-	Manufacture of tubes	
Tubos Mecánicos, S.A. (a)	Abrera (Barcelona, Spain)	100%	-	100%	-	Commercialisation of tubes	
Tubos Mecánicos Norte, S.A. (a)	Llodio (Alava, Spain)	-	100%	-	100%	Commercialisation of tubes	
Métaux Inox Services, S.A.S. (e)	Soissons (France)	100%	-	100%	-	Commercialisation of tubes	

Observations:

- (a) Audited by KPMG Auditores, S.L.
- (b) Audited by Duffy, Allain & Rutten, LLP.
- (c) Audited by Ernst & Young.
- (d) Audited by Grossman & Yanak & Ford.
- (e) Audited by Mazars.
- (f) Subsidiary companies accounted for using the equity method.
- (g) Companies absorbed by Schoeller – Bleckmann Pipe & Tube Inc. in 2007.

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2007 and 2006, in conjunction with which it should be read.