

Bolsa de Bilbao



TUBACEX

Divisa	Comprador
USD	143,123
XEU	164,419
DEM	84,215
FRF	25,810
GBP	234,822
100 ITL	8,551
100 BEF	408,019
NLG	74,894
DKK	22,114
IEP	217,890
100 PTE	83,521

TUBACEX, S.A. AND SUBSIDIARY COMPANIES

Consolidated Annual Accounts

31 December 2006 and 2005

Prepared in accordance with EU-Endorsed International
Financial Reporting Standards

(Translation from the original in Spanish)



KPMG Auditores S.L.
Gran Vía, 17
48001 Bilbao

Auditors' Report on the Consolidated Annual Accounts

(Translation from the original in Spanish)

To the shareholders of
Tubacex, S.A.

1. We have audited the consolidated annual accounts of Tubacex, S.A. (the Company) and subsidiary companies (hereinafter the Group or the Tubacex Group), which comprise the consolidated balance sheet at 31 December 2006, the consolidated statements of income, changes in equity and cash flow for the year then ended and the consolidated notes thereto, the preparation of which is the responsibility of the parent company's board of directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the consolidated annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed. Our work did not include an audit of the 2006 annual accounts of certain companies, shown in the Appendix attached, in which the Tubacex Group holds an interest, and which contribute 29% of assets and 48% of net profit to the corresponding consolidated figures. The aforementioned annual accounts have been audited by other auditors and, therefore, our opinion on the consolidated annual accounts of Tubacex, S.A. and subsidiary companies is based, insofar as it relates to these companies, solely on the reports of those auditors outlined in the aforementioned Appendix.
2. In accordance with prevailing legislation, these consolidated annual accounts for 2006 also include, for each individual caption in the consolidated balance sheet, the consolidated statements of income, changes in equity and cash flow for the year then ended and the consolidated notes thereto, comparative figures for 2005. We express our opinion solely on the consolidated annual accounts for 2006. On 20 March 2006 we issued our qualified audit report on the consolidated annual accounts for 2005 due to the lack of consistency deriving from the Tubacex Group's decision not to apply International Accounting Standards 32 and 39 to the comparative figures for 2004, as permitted by the exemption provided for in IFRS 1 adopted by the European Union.
3. In our opinion, based on our audit and the reports of the other auditors, mentioned in the Appendix to the notes to the consolidated annual accounts, these consolidated annual accounts present fairly, in all material respects, the consolidated shareholders' equity and consolidated financial position of Tubacex, S.A. and subsidiary companies at 31 December 2006 and the consolidated results of their operations, changes in consolidated equity and consolidated cash flows for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with EU-endorsed International Financial Reporting Standards which have been applied on a basis consistent with that of the previous year.
4. The accompanying consolidated directors' report for 2006 contains such explanations as the directors consider relevant to the situation of the Tubacex Group, the evolution of its business and other matters, but is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2006. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Tubacex, S.A. and subsidiary companies.

KPMG AUDITORES, S.L.

Julio Mir Roma

26 March 2007

KPMG Auditores S.L. firma española miembro de
KPMG International, sociedad suiza

Reg. Mer Madrid, T. 11.981, F. 90.
Sec. 8, H. M-188.007, inscrip. 9
C.I.F. B-78510153

TUBACEX, S.A. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS 31 DECEMBER 2006 AND 2005
 (Expressed in thousands of Euros) (Translation from the original in Spanish)

ASSETS	Note	2006	2005
Property, plant and equipment	5	89,585	92,976
Intangible assets	6	22,958	23,857
Investment property	7	3,513	3,813
Investments accounted for using the equity method		1,049	998
Financial assets	8	5,596	8,589
Derivative financial instruments	9	1,078	-
Deferred tax assets	13	20,463	23,647
Other non-current assets		-	26
Total non-current assets		144,242	153,906
Inventories	10	201,926	159,721
Trade and other receivables	11	166,772	122,001
Other current assets		132	-
Cash and cash equivalents	12	26,543	21,302
Total current assets		395,373	303,024
Total assets		539,615	456,930

The accompanying notes form an integral part of the 2006 and 2005 consolidated annual accounts.

EQUITY	Note	2006	2005
Share capital		59,840	59,840
Share premium		17,108	17,108
Other reserves		63,203	61,817
Own shares		(2,519)	(2,519)
Translation reserve		1,153	2,501
Retained earnings		86,433	67,275
Total equity	14	225,218	206,022
LIABILITIES			
Interest-bearing loans and borrowings	16	6,689	12,295
Employee benefits	19	13,260	13,867
Deferred income		153	181
Other provisions	20	9,169	13,945
Deferred tax liabilities	13	1,407	1,140
Other non-current financial liabilities	17	1,457	2,791
Total non-current liabilities		32,135	44,219
Interest-bearing loans and borrowings	16	190,660	135,038
Trade and other payables	18	79,711	67,634
Other provisions	20	6,605	-
Income tax payable	23	5,286	4,017
Total current liabilities		282,262	206,689
Total equity and liabilities		539,615	456,930

INCOME STATEMENTS

TUBACEX, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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

	Note	2006	2005
Revenue		539,073	430,497
Other income	7 and 21	905	3,979
Increase in stocks of finished products and work in progress		6,951	28,895
Self-constructed non-current assets		195	151
Raw materials and consumables		(321,650)	(264,599)
Personnel expenses	22	(85,357)	(82,555)
Amortisation, depreciation and impairment losses	5, 6 and 7	(16,746)	(15,645)
Other expenses		(76,085)	(63,719)
		47,286	37,004
Financial income		6,686	6,614
Financial expenses		(12,794)	(10,437)
Share of profit in companies accounted for using the equity method		43	75
Profit before income tax		41,221	33,256
Income tax expense	23	(10,274)	(7,832)
Profit for the year		30,947	25,424
Basic earnings per share (expressed in Euros)	15	0.236	0.194

The accompanying notes form an integral part of the 2006 and 2005 consolidated annual accounts.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TUBACEX GROUP

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

31 DECEMBER 2006 AND 2005 (Expressed in thousands of Euros) (Translation from the original in Spanish)

	2006	2005
Cash flows from operating activities		
Profit before income tax	41,221	33,256
Adjusted for:		
Amortisation and depreciation	16,746	15,645
Change in provisions	7,070	5,854
Financial income	(7,441)	(6,614)
Financial expenses	13,013	10,437
Share in profit of companies accounted for using the equity method	(43)	(75)
Losses from the sale of property, plant and equipment	168	-
Deferred government grants	(28)	(524)
Changes in working capital	70,706	57,979
Increase in trade receivables	(44,771)	(23,319)
Increase in inventories	(42,205)	(38,425)
Increase in trade and other payables	12,077	11,276
Decrease in provisions	(4,892)	(624)
Decrease in employee benefits	(1,034)	(495)
Other items	-	3,433
Cash from operations	(10,119)	9,825
Interest paid	(13,013)	(10,437)
Income tax paid	(5,554)	(3,343)
Net cash from operating activities	(28,686)	(3,955)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	683	521
Proceeds from sale of investment property	294	-
Proceeds from sale of financial assets	2,490	451
Interest received	6,363	6,614
Acquisition of property, plant and equipment	(13,887)	(15,857)
Acquisition of intangible assets	(344)	(1,469)
Acquisition of other financial assets	-	(92)
Other	(95)	(1,115)
Net cash from investing activities	(4,496)	(10,947)
Cash flows from financing activities		
Proceeds from other non-current liabilities	(1,427)	27
Proceeds from interest-bearing loans and borrowings	50,016	31,706
Dividends paid	(10,166)	(6,756)
Other	-	(377)
Net cash from financing activities	38,423	24,600
Net increase in cash and cash equivalents	5,241	9,698
Cash and cash equivalents at 1 January	21,302	11,604
Cash and cash equivalents at 31 December	26,543	21,302

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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	Own shares	Other reserves	Translation reserve	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

TUBACEX, S.A. AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005 (Expressed in thousands of Euros) (Translation from the original in Spanish)

	Share capital	Share premium	Own shares	Other reserves	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2005	59,840	17,108	-	61,430	(932)	49,371	186,817
IAS 32 and 39 adoption	-	-	(2,519)	-	-	-	(2,519)
Restated balance at 1 January 2005	59,840	17,108	(2,519)	61,430	(932)	49,371	184,298
Effect of foreign currency translation differences	-	-	-	-	3,433	-	3,433
Other movements	-	-	-	-	-	(377)	(377)
Profit for the year	-	-	-	-	-	25,424	25,424
Total income and expense recognised during the year	-	-	-	-	3,433	25,047	28,480
Appropriation of retained earnings	-	-	-	7,143	-	(7,143)	-
Dividends paid	-	-	-	(6,756)	-	-	(6,756)
Balance at 31 December 2005	59,840	17,108	(2,519)	61,817	2,501	67,275	206,022

The accompanying notes form an integral part of the 2006 and 2005 consolidated annual accounts.

TUBACEX, S.A. AND SUBSIDIARY COMPANIES

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

(1) NATURE, PRINCIPAL 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 principal 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 principal 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 subsidiaries at 31 December 2006, 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" (IAS 1.14) on the same date.

The directors consider that the 2006 consolidated annual accounts, prepared on 23 March 2007, 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 2006, 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.

No significant changes to judgements or accounting estimates made by the Company in prior years occurred in 2006.

2.3 Standards and interpretations not applied

Certain standards, amendments and interpretations issued by the European Union are not effective for the year ended 31 December 2006 and have not been applied during the preparation of the annual accounts. Details of these standards are as follows:

New accounting standards (IFRS) and interpretations (IFRIC) have been issued and adopted by the EU which are effective for accounting periods beginning on or after 1 January 2007. A summary of group management's assessment of the impact of these new standards is as follows:

IFRS 7, Financial instruments: Disclosures

In August 2005, the IASB issued IFRS 7 Financial instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 and the Amendment to IAS 1 introduce new requirements to improve the information on financial instruments presented in the financial statements and replace IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial

Institutions, and certain requirements of IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces requirements for disclosure about an entity's capital. IFRS 7 is effective for annual periods beginning on or after 1 January 2007. The Group has not adopted early application of this standard. Application of this standard will not have a significant effect on the Group's consolidated financial statements and will involve disclosing additional information on the Group's financial instruments and share capital.

IFRIC 8, Scope of IFRS 2 – Share-based payments

In January 2005, the IFRIC issued IFRIC 8 regarding share-based payment for transactions in which the entity cannot specifically identify some or all of the goods or services received. This interpretation is effective for annual periods beginning on or after 1 May 2006. The Group does not currently engage in share-based payments and consequently, this interpretation will not affect its consolidated financial statements.

IFRIC 9, Reassessment of embedded derivatives

In March 2006, the IFRIC issued IFRIC 9 regarding assessment of whether any embedded derivatives contained in a financial instrument are required to be separated from the host contract. This interpretation is effective for annual periods beginning on or after 1 June 2006. The Group does not currently hold any hybrid financial instruments, and consequently, this interpretation will not affect its consolidated financial statements.

IFRIC 11, IFRS 2- Group and own share transactions (pending adoption by the EU)

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 2006. The Group does not currently engage in share-based payments and consequently, this interpretation will not affect its consolidated financial statements.

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 financial statements.

IFRS 8, Operating segments (pending adoption by the EU)

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 financial statements will be the modification of reporting segments and the information reported by these segments.

(3) DISTRIBUTION OF PROFIT

The proposed distribution of profits for 2006 of Tubacex, S.A., prepared by the directors and pending approval by the shareholders at their annual general meeting, and the approved distribution of 2005 profit, are as follows:

	Thousands of Euros	
	2006	2005
Dividend of Euros 0.093 per ordinary share (Euros 0.076 in 2005)	12,379	10,166
Voluntary reserves	1,304	1,409
Other reserves	466	1,286
Total distributable profit	14,149	12,861

(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 recorded 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 the business combinations is measured as the aggregate of the fair values of assets contributed, liabilities incurred or assumed and net 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, 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 as fair value less selling costs.

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 are shown in the Appendix to these notes.

Although the Group exercises effective control over certain subsidiaries of the Schoeller – Bleckmann Edelstahlrour AG 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 recorded, where appropriate, as an increase or decrease in the investment with an equivalent, separate entry under equity.

Other aspects related to the consolidation of subsidiary companies

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 cash flow statement at the exchange rate prevailing at the transaction date. The effect of variations in exchange rates on cash and cash equivalents expressed in foreign currencies is presented separately in the consolidated cash flow statement under effect of exchange differences on cash flow.

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 recorded 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 applied the exemption whereby accumulated translation differences generated prior to 1 January 2004 and recognised in the consolidated annual accounts are shown under retained earnings. The translation into Euros of foreign operations, excluding foreign operations in hyperinflationary economies, 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 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 recorded 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 of property, plant and equipment is determined based on the criteria outlined below:

	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 (CGUs) or groups of CGUs 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 government grants.

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

The Group assesses whether the useful life of each intangible asset acquired is defined or indefinite. An intangible asset is considered to have an indefinite useful life where there is no foreseeable limit to the period over which it will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually.

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 the end of each financial year. 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 comprises 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.

Investment properties mainly comprise a shopping centre in Torrejón de Ardoz (Madrid, Spain) belonging to the Group, which is not owner-occupied but 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 cost or deemed cost 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 at 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 recorded 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 4.16 (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 generally accepted measurement techniques using 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 and debt instruments 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 recorded 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

The Group applies financial asset derecognition criteria to either to part of a financial asset (or part of a group of similar financial assets) or to a financial asset (or a group of similar 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. Financial asset derecognition criteria for operations in which the Group neither substantially transfers nor retains the risks and rewards inherent to ownership is based on the degree of control maintained.

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 Derivatives and hedge accounting

The Group employs derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from its activities. Nevertheless, these derivative financial instruments do not meet hedge accounting criteria, and consequently, are classified and measured as financial assets and liabilities at fair value through profit or loss in line with the criteria described in note 4.6.

4.8 Parent company shares

Own 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 own shares.

The subsequent redemption of own 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 selling costs;
- Work in progress: the estimated selling price for the corresponding finished products, less estimated costs of completion and selling costs.

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 and other consumables". 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 are recognised as financial liabilities in the consolidated balance sheet.

The Group recognises interest received as cash flow from investing activities and interest paid as cash flows from financing activities. Dividends and interest paid 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 the recoverable amount.

Goodwill, indefinite-lived intangible assets and intangible assets not yet ready for use are tested for impairment annually 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 selling costs 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 cash-generating units 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 selling costs, 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 are recognised as a reduction in the expense being financed.

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. 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

According to 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

Identities 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 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 has transferred the right to use certain assets 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.

The Group only employs operating lease contracts.

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, net of any incentives, is recognised 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.

Initial direct costs of the lease are included in the carrying amount of the leased asset and are expensed over the term of the lease in line with revenue recognition criteria.

4.16.2 Operating lease: lessee

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

Lease payments under an operating lease, net of any incentives received, 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.

Tax planning opportunities are only considered on evaluation of the recovery of deferred tax assets and if the Group intends to use these opportunities or it is probable that they will be used.

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. When determining whether products or services are related, the Group considers the risk and rewards of the product or service.

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. When determining geographical segments, the Group considers the risks and rewards of the markets in which it sells its products.

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 the damage caused to the environment by its activities.

Costs incurred from these activities are recognised under other operating 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 2006 and 2005 are as follows:

	Thousands of Euros										
	31.12.04	Additions	Disposals	Transfers	Translation differences	31.12.05	Additions	Disposals	Transfers	Translation differences	31.12.06
Cost											
Land	15,893	-	-	-	18	15,911	-	-	-	(13)	15,898
Buildings	64,989	1,703	(8)	207	420	67,311	252	-	69	(358)	67,274
Plant and machinery	268,187	10,450	(2,152)	1,027	3,096	280,608	9,881	(2,132)	1,155	(2,499)	287,013
Other installations, equipment, furniture and other assets	17,241	1,556	(1,071)	570	137	18,433	1,456	(1,332)	809	(107)	19,259
Advances and work in progress	1,255	2,148	(31)	(1,804)	69	1,637	2,298	(285)	(2,038)	(16)	1,596
	367,565	15,857	(3,262)	-	3,740	383,900	13,887	(3,749)	(5)	(2,993)	391,040
Accumulated depreciation											
Buildings	(47,322)	(1,805)	-	(132)	(154)	(49,413)	(1,832)	26	-	111	(51,108)
Plant and machinery	(206,664)	(10,052)	2,152	(1,179)	(276)	(216,019)	(11,878)	1,373	-	782	(225,742)
Other installations, equipment, furniture and other assets	(13,547)	(2,023)	589	1,311	(642)	(14,312)	(1,601)	842	-	38	(15,033)
	(267,533)	(13,880)	2,741	-	(1,072)	(279,744)	(15,311)	2,241	-	931	(291,883)
Accumulated impairment losses	(9,691)	-	-	-	(1,489)	(11,180)	-	475	-	1,133	(9,572)
Net balance	90,341	1,977	(521)	-	1,179	92,976	(1,424)	(1,033)	(5)	(929)	89,585

5.1 Insurance

The Group has contracted various 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 interrupt 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 2006 and 2005, provisions for property, plant and equipment amounted to Euros 9,572 thousand and Euros 11,180 thousand, respectively.

(6) INTANGIBLE ASSETS

Details of and movement in the main classes of intangible assets in 2006 and 2005 are as follows:

	Thousands of Euros				Total
	Works of art	Other intangible assets	Goodwill	Greenhouse gas emission rights	
1 January 2005					
Cost	5,711	9,118	18,275	-	33,104
Accumulated amortisation and impairment losses	(2,053)	(7,073)	-	-	(9,126)
Net carrying amount	3,658	2,045	18,275	-	23,978
Exchange gains	-	4	-	-	4
Additions	-	1,469	-	-	1,469
Amortisation	-	(1,594)	-	-	(1,594)
	3,658	1,924	18,275	-	23,857
31 December 2005					
Cost	5,711	10,591	18,275	-	34,577
Accumulated amortisation and impairment losses	(2,053)	(8,667)	-	-	(10,720)
Net carrying amount	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
31 December 2006					
Cost	5,711	10,816	18,375	18	34,920
Accumulated amortisation and impairment losses	(2,053)	(9,909)	-	-	(11,962)
	3,658	907	18,375	18	22,958

(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 2006 and 2005.

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 on one of its subsidiaries 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 carrying amount of non-monetary emission rights grants received by group companies in 2006 and 2005 are as follows:

	Thousands of Euros			
	Fair value	2006 Carrying amount	Fair value	2005 Carrying amount
	146	520	520	-

Emission rights amounting to Euros 520 thousand form part of the group of installations dedicated to melting activity carried out by the subsidiary Aceria de Alava, S.A.

Details of emission rights allocated during the National Allocation Plan and the annual distribution thereof are as follows:

	Number of rights			
	2006 Free	2006 Paid	2005 Free	2005 Paid
2005	-	-	22,455	-
2006	22,455	1,487	22,455	-
2007	22,455	-	22,455	-
	44,910	1,487	67,365	-

Movement in the number of rights during 2006 and 2005 is as follows:

	Free	Paid	Total
Balances at 1 January 2005	-	-	-
Additions	22,455	-	22,455
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

(7) INVESTMENT PROPERTY

Details of and movement in investment property are as follows:

	Thousands of euros
1 January 2005	
Cost	5,676
Accumulated depreciation and impairment losses	(1,692)
Net carrying amount	3,984
Depreciation charge	(171)
	3,813
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

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 (Euros 3,813 thousand in 2005). 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.

Until the option is exercised, i.e. between 1 October 2002 and 31 December 2007, the premises will remain leased to a third party for a monthly rent of Euros 10 thousand. Total income accrued this year, including other items, amounts to Euros 120 thousand and is recorded under "Other income" in the consolidated income statement at 31 December 2006.

On 5 February 2007 the Company sold assets related to the shopping centre to its current tenant. The finally agreed price amounted to Euros 4,607,760. The net carrying amount of the assets sold at the date of the transaction was Euros 3,512,706. The additional estimated costs to be incurred by the Company on this operation will amount to approximately Euros 1,500.

The fair value of investment property at 31 December 2006 amounts to approximately Euros 5,592 thousand.

(8) FINANCIAL ASSETS

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

	Thousands of euros	
	2006	2005
Held-to-maturity investments	-	7,635
Available-for-sale financial assets	5,358	213
Loans	212	741
Other financial assets	26	-
	5,596	8,589

Financial assets classified as available-for-sale mainly correspond to Euros 5,090 thousand in medium and long-term fixed-income investment funds which in prior years were classified as held-to-maturity. Part of these investments are used to secure long-term loans extended to this company (see note 16), the outstanding principal of which at 31 December 2006 amounts to Euros 609 thousand (Euros 2,323 thousand in 2005).

The fair value of these investment funds is Euros 5,194 thousand (Euros 7,833 thousand in 2005), based on the market value at 31 December 2006.

On 23 September 2002 Tubacex Taylor Accesorios, S.A. sold its 40% investment in the share capital of COTUSA for Euros 2,734 thousand. At 31 December 2006 the remaining balance to be collected amounts to Euros 684 thousand, Euros 228 thousand of which (Euros 684 thousand in 2005) is recorded under loans as it is due to mature in 2008.

(9) DERIVATIVE FINANCIAL INSTRUMENTS

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 38,857 thousand (Euros 30,867 thousand in 2005), and corresponds to the hedging of foreign currency balances already invoiced and estimated future collections of orders secured with clients. The value of hedged currencies amounts to US Dollars 28,863 thousand, Pounds Sterling 10,452 thousand and Canadian Dollars 1,264 thousand.

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					
	2006			2005		
	US Dollar	Pound Sterling	Canadian Dollar	US Dollar	Pound Sterling	Canadian Dollar
Up to one year	22,618	15,372	867	20,799	6,949	3,119

The par value of all forward contracts for foreign currency purchases is Euros 21,375 thousand (Euros 444 thousand in 2005), and corresponds 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 refer to estimated payments for these items to be made in the first four months of 2007 and the underlying asset amounts to US Dollars 27,015 thousand.

Details of the par value of forward contracts for foreign currency purchases by term to maturity and type of currency at 31 December 2006 are as follows:

	Thousands of euros	
	2006 US Dollars	2005 US Dollars
Up to one year	21,375	444

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

9.2 Interest rate swaps

The Group hedges its interest rate exposure through financial swaps, details of which are as follows:

Par value in thousands of Euros	Start date	Maturity	Interest rate
10,000	1.12.05	1.12.10	2.8025%
6,000	30.06.03	31.12.07	3.20%
6,000	1.09.05	1.09.09	3.0525%
5,000	1.09.05	1.09.10	3.03%
5,000	1.09.05	1.09.10	2.9925%
4,000	1.03.05	1.03.09	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 1,078 thousand 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	
	2006	2005
Goods for resale	19,369	15,147
Raw materials and goods for conversion	74,712	41,356
Work in progress	43,126	38,602
Finished products	64,700	62,653
Other items	19	1,963
	201,926	159,721

(11) TRADE AND OTHER RECEIVABLES

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

	Thousands of euros	
	2006	2005
Trade receivables	143,114	104,810
Trade loans with companies accounted for using the equity method	234	583
Sundry debtors	1,355	884
Public entities	23,478	17,250
	168,181	123,527
Provisions	(1,409)	(1,526)
	166,772	122,001

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

	Thousands of euros	
	2006	2005
Tax authorities		
VAT	22,291	14,152
Other items	1,187	481
Government grants	-	18
Other items	-	2,599
	23,478	17,250

(12) CASH AND CASH EQUIVALENTS

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

	Thousands of euros	
	2006	2005
Cash in hand and at banks	13,174	16,644
Short-term deposits with banks	19	1,733
Short-term deposits	13,350	2,925
	26,543	21,302

Short-term deposits include Euros 1,728 thousand corresponding to the liquidating value of money market investment funds, which earn effective gross annual interest of between 1.68% and 7.27%.

(13) DEFERRED TAXES

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

	Thousands of euros			
	Assets		Liabilities	
	2006	2005	2006	2005
For provisions	1,863	1,220	-	-
For other items	1,220	334	1,407	1,140
Tax loss carryforwards	9,032	13,297	-	-
Deductions and credits	8,348	8,796	-	-
	20,463	23,647	1,407	1,140

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

	Thousands of Euros			
	Assets		Liabilities	
	2006	2005	2006	2005
For provisions	(643)	(68)	-	-
For other items	(886)	45	267	121
Tax loss carryforwards	4,265	3,933	-	-
Deductions and credits	448	(1,051)	-	-
Total (Note 23)	3,184	2,859	267	121

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

	Thousands of euros	
	2006	2005
Tax loss carryforwards	5,164	4,202
Deductions and credits	6,499	7,717
Total assets	11,663	11,919
Deferred tax liabilities	(1,407)	(1,140)
Net amount	10,256	10,779

(14) EQUITY

14.1 Capital

At 31 December 2006 and 2005 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 own 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 of shares in the parent.

At 31 December 2006 and 2005 no legal entity directly or indirectly held more than 10% of the share capital of Tubacex, S.A.

Pursuant to the 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 stipulates that no shareholder may cast more than 5% of the total number of votes. Accordingly, 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 2006 and 2005 are as follows:

	Thousands of euros	
	2006	2005
Legal reserve	11,502	10,216
Voluntary reserves		
Other parent company reserves	45,317	45,217
Own share reserve	2,519	2,519
Other reserves	3,865	3,865
Total	63,203	61,817

Legal reserve

The legal reserve has been appropriated in conformity with Article 214 of the 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 entry corresponds to voluntary reserves, which are freely distributable.

14.4 Own share reserve

The own share reserve corresponds to the cost of parent company shares held by the Group. At 31 December 2006 and 2005 the Group held 1,915,306 own shares.

Details of shares held by the parent company at 31 December 2006 and 2005 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, and consequently, translation differences included under equity refer to those generated as of 1 January 2004.

14.6 Dividends and restrictions on dividend distribution

Dividends on 2005 profit distributed by Tubacex, S.A. in 2006 amounted to Euros 10,166 thousand (Euros 6,756 thousand in 2005), which is equivalent to Euros 0.08 per share (Euros 0.05 per share in 2005).

(15) EARNINGS PER SHARE

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

	Thousands of euros	
	2006	2005
Profit attributable to ordinary shareholders	30,947	25,424
Weighted average number of ordinary shares outstanding	131,063,476	131,063,476
Basic earnings per share	0.236	0.194

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

	2006	2005
Ordinary shares in circulation at 1 January	132,978,782	132,978,782
Effect of own 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	
	2006	2005
Non-current		
Bank loans	6,689	12,295
Current		
Credit facility	155,594	99,709
Short-term loans	19,721	20,799
Current portion of long-term debt	6,036	7,028
Discounted notes	4,381	5,589
Advances on exports	3,100	1,436
Bank overdrafts	1,404	-
Interest	424	152
Other loans	-	325
	190,660	135,038

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

The effective interest rates of bank loans during 2006 and 2005 have fluctuated between Euribor + 0.3% and Euribor + 1% (Euribor + 0.3% and Euribor + 1% in 2005).

Long-term maturities of bank loans at 31 December 2006 and 2005 are as follows:

Maturity	Thousands of euros	
	2006	2005
Two years	1,821	5,606
Three years	1,516	1,821
Four years	616	1,516
Five years	482	616
Remainder	2,254	2,736
	6,689	12,295

A group company has mortgaged part of its property, plant and equipment to secure repayment of a portion of bank loans, amounting to Euros 4,118 thousand. Furthermore, a group company has pledged units in an investment fund totalling Euros 609 thousand to secure a bank loan with an equivalent principal which is expected to mature in 2007 (see note 8).

The effective interest rates of credit facilities during 2006 and 2005 have fluctuated between Euribor + 0.35% and Euribor + 0.65% (Euribor + 0.3% and Euribor + 0.55% in 2005). The combined limit of these credit facilities at 31 December 2006 amounts to approximately 170,000 thousand.

Short-term loans correspond to bank loans extended to the SBER consolidated subgroup for financing its working capital requirements, and the effective interest rates in 2006 and 2005 fluctuated between 2.45% and 4% (2.25% and 2.90% in 2005). Part of these loans, amounting to 10,028 thousand, is secured through a pledge on a series of receivables derived from trade operations.

On 30 June 2003 the Company contracted an interest rate swap to hedge part of the aforementioned loans for a nominal amount of Euros 6,000 thousand which matures on 31 December 2007 and accrues secured interest of 3.75% (fixed interest of 3.20% plus the spread of the initial loan of 0.55%).

In 2005 a group company contracted interest rate swaps to hedge the interest rate on certain credit facilities for a nominal amount of Euros 30,000 thousand with an average interest rate of 2.95%.

(17) OTHER NON-CURRENT FINANCIAL LIABILITIES

Details of other non-current liabilities are as follows:

	Thousands of euros	
	2006	2005
Non-current		
Long-term repayable loans	735	1,387
Temporary receivership creditors	629	1,050
Other	93	354
	1,457	2,791

Long-term repayable loans correspond to interest-free loans with a grace period of between two and four years on repayment of the capital 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 2006 and 2005 are as follows:

Maturity	Thousands of euros	
	2006	2005
Two years	152	298
Three years	160	298
Four years	159	298
Five years	107	298
Remainder	157	195
	735	1,387

In 2005, long-term repayable loans included a bank loan of Euros 605 thousand which in 2006 has been reclassified to interest bearing loans and liabilities.

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 2006 and 2005 is as follows:

Maturity	Thousands of euros	
	2006	2005
Two years	629	421
Three years	-	629
	629	1,050

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	
	2006	2005
Current		
Repayable loans	143	129
Temporary receivership creditors	899	550
	1,042	679

(18) TRADE AND OTHER PAYABLES

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

	Thousands of euros	
	2006	2005
Trade payables	60,227	53,379
Other payables		
Salaries payable	10,455	7,801
Social security	1,606	1,437
Public entities	5,903	4,139
Temporary receivership creditors (note 17)	899	550
Repayable loans (note 17)	143	129
Other debts	478	199
	19,484	14,255
	79,711	67,634

(19) EMPLOYEE BENEFITS

Movement in the provision for employee benefits during 2006 and 2005 is as follows:

	Thousands of euros		
	Commitments with personnel	Other obligations	Total
Balances at 31 December 2004	4,199	5,270	9,469
Expense for the year	5,094	459	5,553
Benefits paid	(495)	-	(495)
Reversals	(660)	-	(660)
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

On 29 October 2002 the management of Tubacex, S.A. and subsidiary companies Acería de Alava, S.A. and Tubacex Tubos Inoxidables, S.A. and their respective workforces signed a relief 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 relief 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.

At 31 December 2006 and 2005 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 7,415 thousand and Euros 8,138 thousand, respectively.

Other commitments with personnel mainly include certain legal obligations with SBER subgroup employees who joined the company prior to 31 December 2002, and which become due when they retire, 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 5,709 thousand and Euros 5,361 thousand at 31 December 2006 and 2005, respectively. The discount rate applied is 4.50%. This provision also includes the estimated amounts accrued and payable in the future of retirement bonuses for employees of this subgroup who have completed 25, 35 and 40 years' service. These bonuses are paid in one, two or three monthly instalments, respectively.

(20) OTHER PROVISIONS

Details of other provisions at 31 December are as follows:

	Thousands of euros	
	2006	2005
Non-current		
Other	9,169	13,744
Life insurance	-	201
	9,169	13,945
Current		
Other	6,571	-
Emission rights	34	-
	6,605	-

The movement in provisions during 2006 and 2005 is as follows:

	Thousands of euros			Total
	Life insurance	Emission rights	Others	
31 December 2004	408	-	13,200	13,608
Charges	-	-	1,462	1,462
Applications	(207)	-	(417)	(624)
Reversals	-	-	(501)	(501)
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)
31 December 2006	-	34	15,740	15,774

The Group has provided for the estimated amount of tax debts and probable or certain liabilities arising from litigation in progress 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 1,148 thousand and Euros 982 thousand at 31 December 2006 and 2005, respectively.

During 2006, the Group has made provision for onerous contracts amounting to Euros 950 thousand.

The Group has contingent liabilities for bank guarantees and other guarantees extended to third parties related to the ordinary course of business for a total amount of Euros 3,762 thousand (Euros 2,668 thousand in 2005). 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 2006 and 2005 are as follows:

	Thousands of euros	
	2006	2005
Operating leases	165	154
Operating subsidies	382	1,146
Other income	860	2,679
	1,407	3,979

(22) PERSONNEL EXPENSES

Details for 2006 and 2005 are as follows:

	Thousands of euros	
	2006	2005
Wages and salaries	62,390	57,533
Contributions to voluntary social welfare entity	941	1,047
Social Security	19,077	16,116
Other welfare benefits	1,492	2,966
Employee benefits	1,457	4,893
	85,357	82,555

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

	2006	2005
Directors, engineers and university graduates	107	105
Technical engineers, experts and qualified assistants	67	57
Middle management	82	84
Assistants	59	57
Senior clerks	161	155
Porters	6	17
Production staff	1,289	1,153
	1,771	1,628

(23) INCOME TAX

Details of income tax for 2006 and 2005 are as follows:

	Thousands of euros	
	2006	2005
Current tax	6,823	4,852
Deferred tax (note 13)		
Origin and reversal of temporary differences	3,451	2,980
	10,274	7,832

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

	Thousands of euros	
	2006	2005
Profit before income tax	41,221	33,256
Expected tax expense at parent company tax rate	13,438	10,841
Difference in subsidiary tax rates	(377)	(89)
Tax credits	(2,183)	(2,809)
Exempt income and non-deductible expenses	-	(1,890)
Deductions applied	(320)	(2,675)
Deductions recognised during the year and not applied	(1,234)	-
Deferred tax assets	(673)	-
Permanent differences	1,623	4,454
Expense for the year	10,274	7,832

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

	Thousands of euros	
	2006	2005
Current tax expense	6,823	4,852
Payments on account during the year	(1,537)	(835)
	5,286	4,017

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 2006 the Company has open to inspection by the tax authorities all main applicable taxes since 31 December 2002. 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.

During 2006, part of fiscal legislation applicable to income tax in Alava, Local Decree 1 of 30 December 2005, was suspended as a precautionary measure. This decision is not final as it has been appealed and had not been published in the Official Alava Gazette.

As the directors of the Company consider that the final outcome of the appeal will not have a significant effect on the annual accounts taken as a whole, they have calculated the income tax for 2006 and for the years open to inspection in accordance with local legislation prevailing at the end of each year.

At the date of preparation of these accounts, the tax authorities are analysing the possibility of applying a new corporate income tax rate, lower than 32.6%, to companies subject to local income tax law. A change in this tax rate would modify prior years' tax loss carryforwards, and would also alter any deferred tax assets and liabilities recognised. The directors of the Company consider that in the event this new tax rate is applied, it would not have a significant effect on the consolidated annual accounts taken as a whole.

(24) MANAGEMENT REMUNERATION

Remuneration accrued by key group management personnel during the years ended 31 December 2006 and 2005 is as follows:

	Thousands of euros	
	2006	2005
Short-term remuneration	2,467	1,967
Post-employment benefits	106	80
	2,573	2,047

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

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

During 2006 the members of the board of directors have accrued remuneration of Euros 1,101 thousand (Euros 922 thousand in 2005) 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 2006 the directors do not hold balances with the Group related to advances or loans.

At 31 December 2006 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 2006 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 26/2003 of 17 July, which amends Stock Market Law 24/1988 of 28 July and the revised text of the Companies Act, approved by Royal Legislative Decree 1564/1989 of 22 December, 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
	Altix Inc.	Manufacture of tubes	Chairman
Metaux 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 2006 the Group held environment-related investments of approximately Euros 6,651 thousand (Euros 5,834 thousand in 2005) and incurred environmental expenses of Euros 1,389 thousand (Euros 1,472 thousand in 2005), mainly relating to acid disposal, repairs and maintenance, and consultancy and independent professional audit services.

The Group has received no environment-related grants or income during the year.

With the exception of a provision totalling Euros 72 thousand 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 2006 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 2006 and 2005 as follows:

	Thousands of euros	
	2006	2005
Audit services	137	135

These amounts include all fees for services rendered during 2006 and 2005, irrespective of the date of invoice.

Other auditors have accrued Euros 155 thousand for the audit of the 2006 annual accounts of companies which form part of the consolidated Group and Euros 214 thousand for other services.

(28) FINANCIAL INFORMATION BY SEGMENTS

At 31 December 2006 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	
	2006	2005	2006	2005	2006	2005	2006	2005
Total external revenues	506,061	402,054	33,012	28,443	-	-	539,073	430,497
Total intersegment revenue	265,256	228,453	-	-	(265,256)	(228,453)	-	-
Total segment revenue	771,317	630,507	33,012	28,443	(265,256)	(228,453)	539,073	430,497
Segment result	41,965	31,815	6,071	5,700	(562)	(339)	47,474	37,176
Unallocated expenses							(188)	(172)
Results from operating activities							47,286	37,004
Net finance costs							(6,108)	(3,823)
Share of profit in equity accounted investees	43	75	-	-	-	-	43	75
Income tax expense							(10,274)	(7,832)
Profit for the period							30,947	25,424
Segment assets	440,627	363,150	37,590	31,773	-	-	478,217	394,923
Investments in equity accounted investees	1,049	998	-	-	-	-	1,049	998
Unallocated assets							60,851	61,009
Total assets							540,117	456,930
Segment liabilities	102,977	88,768	7,830	6,335	-	-	110,807	95,103
Unallocated liabilities							204,092	155,805
Total liabilities							314,899	250,908
Capital expenditure	13,874	15,579	357	1,747	-	-	14,231	17,326
Depreciation	16,275	15,306	471	339	-	-	16,746	15,645

	Thousands of euros							
	Europe		United States		Others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
External revenues	368,325	283,259	93,974	85,672	76,774	61,566	539,073	430,497
Segment assets	454,021	372,561	22,286	20,568	1,910	1,794	478,217	394,923
Capital expenditure	13,163	16,521	1,066	798	2	7	14,231	17,326

(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 provides written 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

- Foreign exchange risk

The Group operates on an international scale and is therefore exposed to foreign exchange risk on foreign currency operations, particularly the US Dollar, the Canadian Dollar and the Pound Sterling. Foreign exchange risk arises on future commercial transactions, recognised assets and liabilities and net investments in foreign businesses.

In order to control the foreign exchange risk on future commercial transactions 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, forward foreign currency contracts.

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

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 to limit the amount of risk with any financial institution.

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.

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 other non-current liabilities. Non-current liabilities issued at variable rates expose the Group to cash flow interest rate risk while loans with a fixed rate of interest expose the Group to fair value interest rate risk.

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

DETAILS OF SUBSIDIARY COMPANIES 31 DECEMBER 2006 AND 2005

(Translation from the original in Spanish)

APPENDIX

Company	Registered address	Direct	Percentage ownership		2005	Indirect	Activity
			2006	Indirect			
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	
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 GmbH (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)	Houston (USA)	-	100%	-	100%	Holding company	
Schoeller – Bleckmann Pipe & Tube Inc. (SB Pipe&Tube Inc.)	Houston (USA)	-	100%	-	100%	Commercialisation	
Schoeller – Bleckmann Pipe & Tube Properties Inc. (SB Pipe&Tube Pr. Inc.)	Houston (USA)	-	100%	-	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	
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.

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2006 and 2005, in conjunction with which it should be read.