

Dear Shareholder,

Once again it is a great honour for me to address you on behalf of the Board of Directors of TUBACEX and present this Annual Report, a document providing you with the most important data concerning financial year 2005 and informing you of the strategic lines of action our Group of companies is currently implementing.

The positive expectations anticipated for 2005 have been fulfilled and we find ourselves reviewing a financial period in which we have achieved sales, profits and cash-flow figures that set new records in the history of the company.

Several reasons have contributed to this good year for TUBACEX. On the one hand, the world economy is undergoing a phase of expansion, supported mainly on growth in the USA and China, which has brought with it a relaunching of investment projects in energy-related sectors. On the other hand, high crude prices, which have even reached \$60 per barrel in 2005, have noticeably increased investments in the oil and gas sectors.

With these conditions, there has been a strong increase in the world demand for our products, not only from the point of view of quantity but also in prices. Sales have grown in all markets, especially in the USA and the Far East, in spite of the fact that the strength of the euro against the dollar is continuing to penalise the exports of European enterprises, precisely in those areas where the demand for our products has performed best.

Moreover, the prices of raw materials used by the Group, fundamentally nickel and stainless steel scrap, have increased again. Although the increases have been more moderate than in previous years, the high prices reached by raw materials continue to act as a brake to purchases by tube stockists and distributors. For instance, the price of nickel has risen by almost 150% in the last four years.

The beneficial market situation has been reflected with a 23.9% growth in sales, which reached €430.50m. Operating profit increased to €37m, making it 47.6% higher than in 2004. Meanwhile, net profit increased by 65.3%, reaching the figure of €25.42m. The cash-flow generated amounted to €41.06m, showing an increase of 34.8% over the previous year.

Earlier I mentioned the international economic expansion and the activation of investment projects in sectors which are consumers of our products as key elements for the good economic results on the financial year for our company. Nevertheless, it is necessary to underline the fundamental role that introduction of the Competitiveness Plan, which we have been implementing in the main companies in our Group since 2003, has played in obtaining these results, enabling us to act decisively as regards our productivity and costs. Application of the Strategic Plan 2010 has had a similar effect.

The Competitiveness Plan and the Strategic Plan are complementary projects, oriented towards improving the productivity

and effectiveness of our Group with regard to its main areas of production, marketing and management, seeking to increase operating margins.

Intensive efforts were made during the financial year to achieve the targets set, with several investments having been undertaken in order to increase the productivity of key installations in the Company's industrial process, capitalising on industrial synergies and maximising the economies of scale that exist within our Group.

TUBACEX is to persevere with implementation of this Plan in forthcoming financial years because we are convinced that we can continue to achieve improvements in our goal of obtaining an increasingly more competitive and profitable company.

However, at the same time, we are going ahead with application of the Strategic Plan in which we have defined our business project with a time horizon that takes us up to 2010. It aims to guarantee future growth and profitability and transform our company into the leading manufacturer in the world of seamless stainless steel tubes.

With this Plan we seek to optimise the current production capabilities of the companies in the Group and the quest for commercial excellence in customer service. The strategy adopted by the Group is committed to profitable organic growth, minimises investment requirements and maximises the creation of value for shareholders.

We have already started the development, manufacture and marketing of new products with high value and technologically advanced, as well as products for which there are higher demand growth expectations.

From the commercial point of view, we are still reinforcing our position of leadership and profitability in Europe, seeking growth in the traditional markets for our products at the same time as in the North American market and in those other areas where increased demand for tubes is expected in coming years, such as Asia.

Another outstanding aspect of financial year 2005 has been the signing of the collective agreement with the leading workers' unions, to be in force until 31 December 2007, enabling us to lay the foundations for implementation of the Strategic Plan while also guaranteeing the competitiveness of the Group.

As far as Corporate Governance is concerned, our Company, which is a pioneer in applying the principles of good corporate

governance to its actions and activities, still occupies an excellent position in the rankings regarding analysis of these practices carried out by independent experts. The intention and the commitment of the Board of Directors are to continue incorporating all aspects that favour transparency in its management into its activities. To this effect we are once again going to propose to the Ordinary General Meeting of Shareholders, to be held in May 2006, the elimination of the limitations on the right to vote currently included in our By-Laws and which on previous occasions could not be repealed because of the lack of the quorum required. Included in this Annual Report you will find a detailed report on Corporate Governance.

You will also find a comprehensive report on Corporate Social Responsibility, a policy we started to implement several years ago, aware that business ethics, good corporate governance, transparency, knowledge, respect for the environment, support for culture and contributions towards the development of people and of society are not only taking on increasing importance but are also becoming an essential investment in the creation of value.

As far as the performance of our stocks on the Stock Market is concerned, it is noteworthy that at the end of 2005, TUBACEX stock stood at a price of €3.58 per share, showing a rise of 89.4%, supported by the positive results for the year and the positive prospects that exist about the evolution of our sector. This is the fifth consecutive year in which the listed value of the Company's stock has risen, jointly amounting to an overall increase of 225% compared to the year-end closure in 2000.

Continuing with our policy of shareholder remuneration, TUBACEX distributed two dividends among its shareholders during the year, one ordinary dividend and another supplementary dividend, for a joint amount of €0.0515 gross per share, involving a total of €6.76m and a 50% pay-out of the 2004 profits.

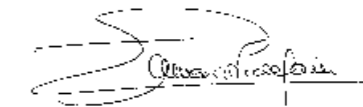
For the current financial year, and in view of the favourable results obtained in 2005, the Board intends to also propose the payment of two dividends at the Annual General Meeting this year, one ordinary and the other supplementary, to be paid in July and September respectively, for a joint amount of €0.0776 gross per share. The total disbursement will be €10.17m, which means a payout of 40% of the profits for 2005. We shall also pay a premium of one euro cent per share for attending the Annual General Meeting, which means the anticipated additional payment—if all the shares are present or represented—of €1.33m.

With regard to the evolution of the current financial year, 2006, IMF forecasts indicate that the expansive cycle of the international economy is due to continue, with important growth rates in Asia—especially China, India and ASEAN countries—and in the USA, and more moderate growth in Europe.

The high oil prices reached in the early months of the year—above \$70 per barrel in April—are continuing to relaunch important investments in the oil and gas, petrochemical and energy sectors, and therefore creating growth in the demand for seamless stainless steel tubes.

The months of this year which have already passed confirm that this will also be a successful financial year, as shown by the results for the first quarter, in which there have been increases in figures for sales and profits. But it is always advisable to be cautious, because there are still some factors that might affect development, such as prices of raw materials, the evolution of currency markets and the present geopolitical uncertainty concerning the Gulf area.

What I can assure you is that this entire grand project for TUBACEX to become the leading manufacturer in the world of seamless stainless steel tubes is on the move and is based on three fundamental pillars: our worldwide customers, the professionals who make up our human resources and our numerous shareholders, for whom the whole organisation will continue to work very actively to achieve this goal and to obtain the very best results in every sense.



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