

# GENERAL REPORT TO SHAREHOLDERS

The financial year 2006 again established a new milestone as regards the all-time results of TUBACEX, since sales, profits and cash flow figures were the highest since the Company was formed. For yet another year, a fundamental role in obtaining these results was played by the favourable market situation in terms of demand for seamless stainless steel tubes, as well as the implementation of the Competitiveness Scheme that the Company has been working on since 2003 and the launch of the Strategic Plan 2010.

The most significant financial data from the year are as follows:

\*Consolidated sales amounted to €539.07m, 25.2% up on 2005.

\*The consolidated operating profit (EBIT) rose to €47.29m, making it 27.8% higher than the previous year, when it stood at €37m.

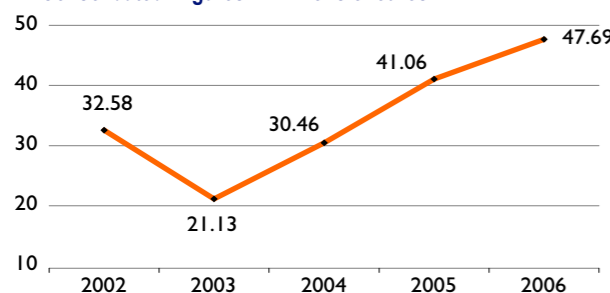
\*The consolidated net profit reached €30.95m, representing an increase of 21.7% over the figure achieved in 2005, when it totalled €25.42m.

\*Consolidated net cash flow went up to €47.69m, an increase of 16.1% on the previous financial year, when the figure was €41.06m.

## Economic environment

The strength of the world economy continued throughout 2006, increasing on the whole by about 5%, founded mainly on growth in the U.S.A. and China, and on an important recovery in the European Union, with growth of 2.8% in the Eurozone.

Progress of net cash flow  
Consolidated. Figures in millions of euros.

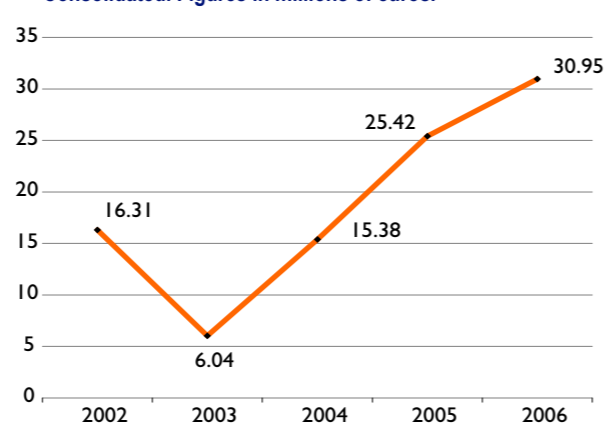


This favourable situation of the international economy, and especially the current high oil prices, has revived many investment projects in basic demand sectors for tubes, such as oil and gas, petrochemicals, chemicals and energy. This brought with it an increase in demand and higher prices for the products manufactured by the Group.

In the seamless stainless steel tube segment, the financial year was characterised by a clearly expansive market situation, not only in demand and order book but also in prices. The same happened in the distribution market and also in the segment regarding demand for projects related with new investments by tube buying sectors.

The strength of the market enabled TUBACEX to set a new all-time record for sales, which rose to €539.07m in 2006, and therefore an increase of some 25.2% over the previous year. This upturn took place in all markets, although it proved especially significant, due to their relative importance, in Europe and the U.S.A., with record levels of incoming orders.

Progress of net profit  
Consolidated. Figures in millions of euros.



In the same way, the positive evolution of the Asian market also continued, especially in China and India, as a result of the dynamic situation that the economies in that area are experiencing, and in the Middle East, where sales doubled.

## Weakness of the dollar

The behaviour of the currency markets is continuing to have a negative impact on exports for European companies, with the Euro remaining strong against the dollar.

Although the favourable market situation has partly compensated for this, the weakness of the dollar, which dates back to 2001, is hindering sales for European manufacturers both in North America and in other regions where demand for products manufactured by TUBACEX is even higher. At the same time, this situation has indirectly assisted companies operating in emerging economies, particularly in Asian countries, where labour costs are low and whose currencies are performing in much the same way as the dollar.

## Raw materials

The prices of the raw materials used by the Group, fundamentally stainless steel scrap and nickel, again rose sharply in 2006, brought about by high levels of world demand and, in the case of nickel, also by the impact on prices caused by stoppages in the production of this metal that occurred during the year. Raw materials prices remained at structurally high levels throughout the whole year, driven by intense speculative activity.

As a result of this situation, the average price of nickel –an essential element in the manufacture of stainless steel- rose by 64.5% during 2006, reaching an average price of \$24,250 per tonne. Moreover, the price of scrap also went up by 50.6% during the year.

The favourable market situation made it possible to pass on these increases to the end customer.

## Increased profits

In 2006 TUBACEX obtained a net profit of €30.95m, 21.7% more than in the preceding financial year.

The high degree of competitiveness achieved by the Company has enabled levels of operating profit, net profit and cash flow to sales figures of 8.8, 5.7 and 8.9%, respectively, to be obtained.

As at 31 December 2006, the Company's net equity stood at €225.22m, accounting for 41.7% of its total liabilities.

## Results of subsidiaries

Financial year 2006 proved to be positive for the Group's subsidiaries, which obtained important increases in their sales figures, setting new records in all of them.

Among the industrial subsidiaries of the Group, the good overall performance of those located in Europe must be highlighted, especially in the case of Acerálava, which recorded significant increases in its sales, profits and cash flow figures.

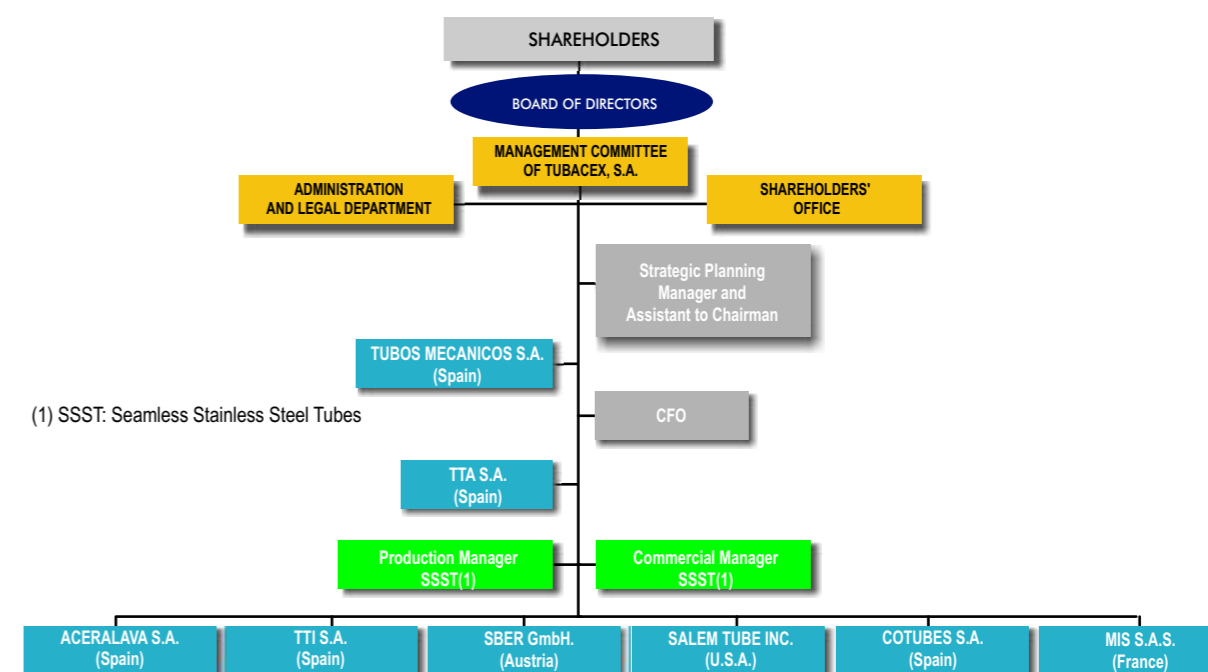
The North American subsidiary Salem Tube, on its part, achieved its best results, with regard to both sales and profits, since it was incorporated into the TUBACEX Group in 1995.

Leading the way among the trading companies was the Tubos Mécánicos Group, which continued to achieve a high degree of profitability, and Cotubes, which doubled its profits.

**\*Consolidated sales grew by 25.2%**

**\*2006 has been the best financial year in the history of TUBACEX**

## ORGANISATIONAL STRUCTURE OF THE TUBACEX GROUP



(1) SSST: Seamless Stainless Steel Tubes

**Competitiveness and strategy**

The current competitive position is due in no small part to the successful industrial and commercial integration of the Group's various business units and the work that has gone into creating synergies with regard to commercial and production aspects, all of which has enabled the Company to secure a world market share of over 22% in its range of products.

With the implementation of the improvement projects framed within the Competitiveness Scheme, TUBACEX aims to continue focusing its efforts on maximising the profitability and competitiveness of its business units, while working internally on the development of the industrial Group, the aim being to continue growing profitably and to generate maximum value in the process.

Furthermore, at the end of 2004 TUBACEX began implementing its Strategic Plan 2010, aimed at guaranteeing future growth and profits and making the Company the world's leading seamless stainless steel tube manufacturer.

**\*The net profit increased by 21.7% in the year**

**\*Cash flow amounted to €47.69m**

The strategic option adopted by the Group is committed to profitable organic growth, minimises its investment requirements and maximises the creation of value for shareholders.

Further information relating to the Strategic Plan and the Competitiveness Scheme is set out on the pages that follow.

**Appointment of the General Manager**

In September, the Board of Directors of TUBACEX agreed to appoint Mr. Guillermo Ruiz-Longarte as General Manager of the Group, responsible for the general management of the seamless stainless steel tube business.

This appointment is in keeping with the efforts the Company is making in order to strengthen its organisation and adapt the Group's management structures in seeking maximum implementation of the Strategic Plan.

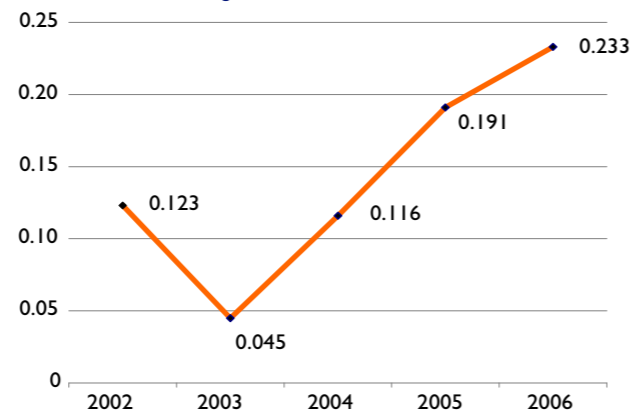
**Dividend payment**

During 2006, TUBACEX paid its shareholders a dividend of €0.0776 gross per share, charged against the 2005 profits, meaning an increase of 50.7% over the previous year and representing the biggest dividend ever paid out by the Company.

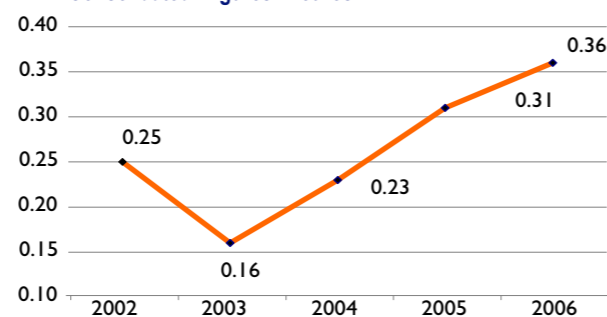
The amount allocated to dividends during the year amounted to €10.17m, a figure that represents a pay-out of 40% of the profits for financial year 2005, which totalled €25.42m.

Moreover, in 2006 TUBACEX paid a premium for attendance at the Annual General Meeting of Shareholders, held in May, of €0.01 gross per share, involving the pay-out of €1.1m.

**Progress of net profit per share Consolidated. Figures in euros.**



**Progress of net cash flow per share Consolidated. Figures in euros.**



**Stock Market: 38% appreciation**

During the last financial year the TUBACEX shares posted a 38% gain, rising from €3.58 per share on the last day of trading in 2005 to €4.94 per share at the end of December 2006.

This is the sixth consecutive year in which the listed value of the TUBACEX stock has risen, jointly amounting to an overall increase of 349.1% compared to the share value at year-end closure in 2000 (€1.1 per share).

A total of 263.34 million TUBACEX shares were traded during 2006 (up 30.2% over 2005) for the total value of €1,214.27m, a figure which is 104.6% higher than the traded volume in the preceding year.

The stock market capitalisation of the Company at year end on 31 December 2006 was €656.92m.

**Removal of protection clauses**

The Ordinary General Meeting of Shareholders, held in May 2006, agreed to remove so-called protection clauses by approving modification of articles 13 and 17 in the By-Laws as regards those aspects concerning limitation of voting rights and requirements to belong to the Board of Directors.

Approval of this issue required a quorum of attendance or representation at the AGM of 80% of the shares, with a figure of 81.58% of the capital being achieved.

Removal of these statutory clauses is a further step in the application of Good Corporate Governance practices, in which TUBACEX is a pioneering company in Spain.

Moreover, the AGM agreed to extend the term of office of Board members from five to six years, thereby adapting the By-Laws to final stipulation 1.4 of Act 19/2005, and also approved the introduction of electronic voting into the said By-Laws.



**Prince Philip Award**

TUBACEX has received the "Prince Philip Award for Business Excellence 2006-2007" in the "Internationalisation" category, granted by the Ministry of Industry, Tourism and Trade.

In choosing TUBACEX, the judging panel valued its "clear international vocation, as one of the world leaders in the steel production sector, and especially its outstanding level of assets in the U.S.A. and Austria".

TUBACEX, the second largest manufacturer of seamless stainless steel tubes in the world, has production plants in Spain, Austria and the U.S.A. and sales offices in twelve countries, the last of which was opened in Dubai in February 2007.

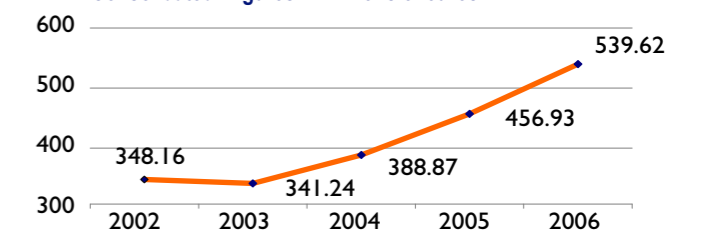
The Company sells its products in more than sixty countries worldwide and has a workforce of 1,771 persons, of which 38.3% are outside Spain.

The "Prince Philip Awards for Business Excellence", which were launched in 1993 with the intention of promoting and strengthening the competitiveness of companies and their penetration into new markets, are the most prestigious awards in Spain in recognition of business competitiveness.

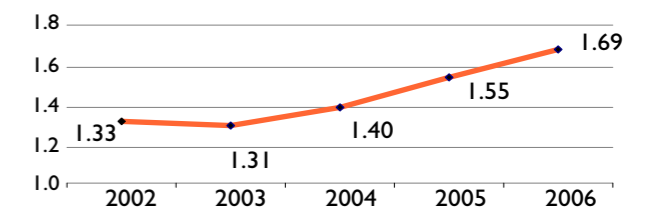
**\*The subsidiaries all set new records for sales figures**

**\*The General Meeting of Shareholders removed the protection clauses from the By-Laws**

**Progress of total assets Consolidated. Figures in millions of euros.**



**Progress of book value per share Consolidated. Figures in euros.**



## KEY EVENTS DURING 2006

### JANUARY

\*TUBACEX became part of the IBEX MEDIUM CAP index, made up of the 20 securities with greatest free float market capitalisation of the Spanish market after the IBEX-35 stocks have been excluded.

### MAY

\*The company Bagoeta S.L. informed that it had acquired 5% of the TUBACEX stock.

\*The Ordinary General Meeting of Shareholders approved the annual accounts for financial year 2005 and the payment of a dividend of €0.0776 gross per share, meaning a total pay-out of €10.17m.

\*The AGM also agreed the appointment of Mr. Luis María Uribarren as a proprietary director on behalf of Bagoeta S.L. and removal of the protective measures which were included in the By-Laws up to this date.

### JUNE

\*Tubos Mecánicos, one of the companies in the TUBACEX Group, opened a warehouse in the locality of Campo Real, Madrid.

\*TUBACEX opened a new sales office in the Brazilian city of São Paulo with the aim of boosting Group activity in Latin America

### JULY

\*TUBACEX paid its shareholders an ordinary dividend of €0.0543 gross per share, paid out of 2005 profits. The total payment amounted to €7.12m.

### AUGUST

\*The Corporate Business Group (Grupo Corporativo Empresarial) of the Caja de Ahorros y Monte de Piedad de Navarra informed that it had acquired a total of 6,648,950 shares in the Company, representing 5% of the share capital.

### SEPTEMBER

\*TUBACEX paid its shareholders a supplementary dividend of €0.0233 gross per share, paid out of 2005 profits. The total payment amounted to €3.05m.

\*The Board of Directors of TUBACEX appointed Mr. Guillermo Ruiz-Longarte, until that time Financial Manager of the Group, as its General Manager and Mr. Javier Robles as Financial Manager of the Group to replace him.

### OCTOBER

\*TUBACEX carried out a corporate presentation of the Company to analysts and investors at the Stock Exchange in Madrid.

### DECEMBER

\*TUBACEX announced a 5% rise in the basic prices of the entire range of tubes manufactured by the Group, to be effective from January 2007.

\*The Technical Advisory Committee of the IBEX indices decided to include TUBACEX, as from 2 January 2007, in the IBEX SMALL CAP index rather than in the IBEX MEDIUM CAP.



### TUBACEX GROUP BASIC INDICATORS

	2006		2005		2004	
SALES	539.07	+25.2%	430.50	+23.9%	347.45	+34.2%
NET PROFIT	30.95	+21.7%	25.42	+65.3%	15.38	+154.6%
NET CASH-FLOW	47.69	+16.1%	41.06	+34.8%	30.46	+44.2%

Consolidated TUBACEX. Figures in millions of euros.

### CASH FLOW AND PROFIT RATIOS

	2006		2005		2004	
NET PROFIT/SALES	5.74	-2.8%	5.90	+33.4%	4.43	+89.8%
NET CASH-FLOW/SALES	8.85	-7.2%	9.54	+8.8%	8.77	+7.4%
NET PROFIT/ASSETS	5.74	+3.1%	5.56	+40.7%	3.96	+123.5%
NET PROFIT/EQUITY	13.74	+11.4%	12.34	+49.9%	8.23	+137.1%

Consolidated TUBACEX. Figures as %.

### RATIOS PER SHARE PERFORMANCE

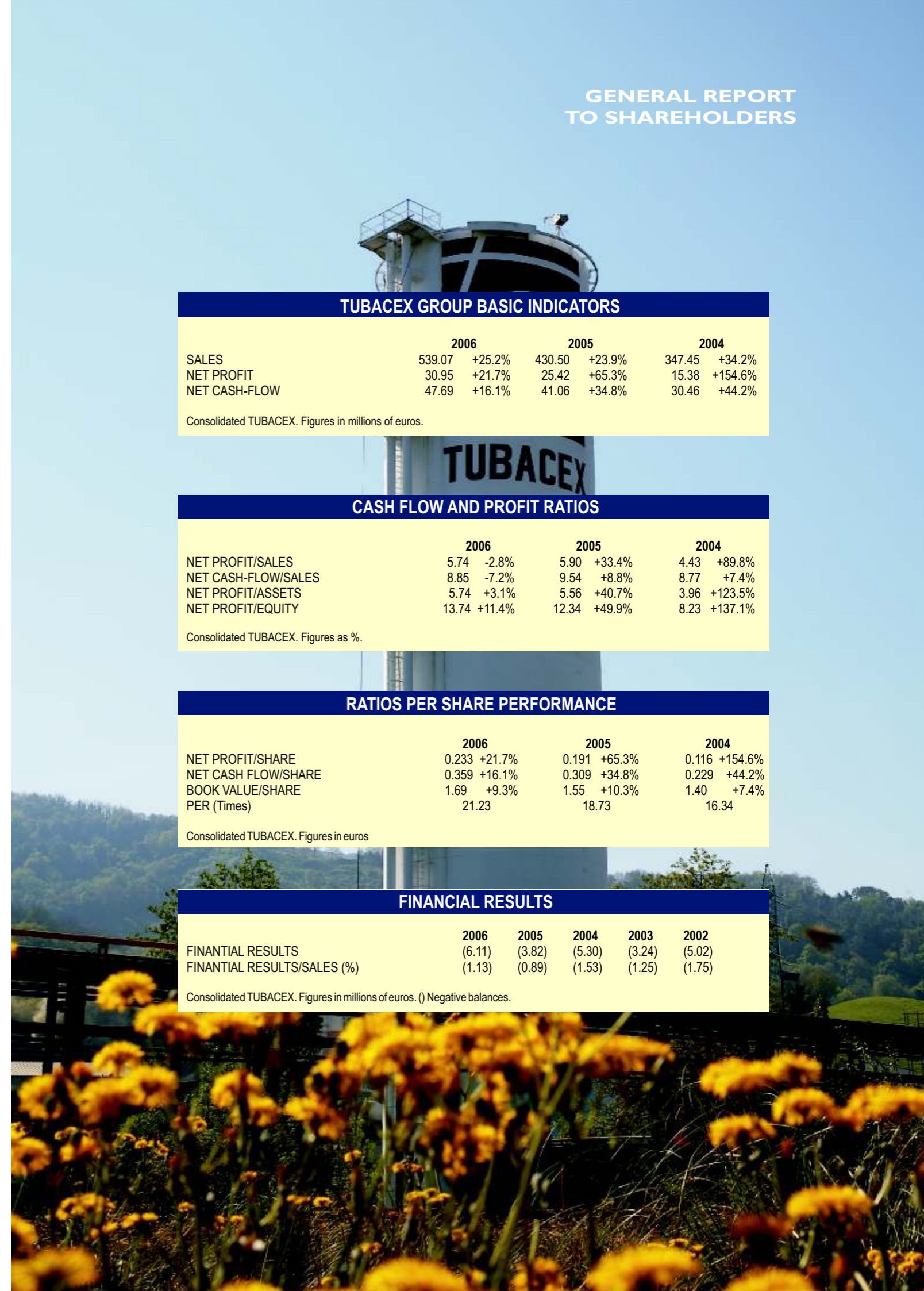
	2006		2005		2004	
NET PROFIT/SHARE	0.233	+21.7%	0.191	+65.3%	0.116	+154.6%
NET CASH FLOW/SHARE	0.359	+16.1%	0.309	+34.8%	0.229	+44.2%
BOOK VALUE/SHARE	1.69	+9.3%	1.55	+10.3%	1.40	+7.4%
PER (Times)	21.23		18.73		16.34	

Consolidated TUBACEX. Figures in euros

### FINANCIAL RESULTS

	2006	2005	2004	2003	2002
FINANCIAL RESULTS	(6.11)	(3.82)	(5.30)	(3.24)	(5.02)
FINANCIAL RESULTS/SALES (%)	(1.13)	(0.89)	(1.53)	(1.25)	(1.75)

Consolidated TUBACEX. Figures in millions of euros. ( ) Negative balances.



**I.- COMMERCIAL ACTIVITY**

A strong increase in demand for seamless stainless steel tubes, initiated the previous year, continued throughout 2006 and led to TUBACEX posting an all-time record for sales, which reached €539.07m, thereby showing an increase of 25.2% over 2005.

**Seamless stainless steel tubes**

In the seamless stainless steel tube segment, where the Group's main business activity lies, the financial year was characterised by a clearly expansive market situation, not only in demand and order book but also in prices. The same happened in the distribution market and also in the segment regarding demand for projects related with new investments in the oil, gas and petrochemical sectors, at a propitious time due to the high price of oil and its by-products.

**\*Sales for 2006 are the highest ever in the history of TUBACEX**

**\*High oil prices are still encouraging investment projects in the sector**

Incoming orders from distributors, not only in Europe but also in the U.S.A., reached record levels in spite of the steep increase in the price of nickel, which rose by 64.5% during the year. The positive response in distribution, not only to this rise in tube prices due to raw material costs but also to the successive price increases applied by the TUBACEX Group throughout the year, makes it possible to be optimistic with regard to the market overview and its expansion phase being maintained in the short and medium term.

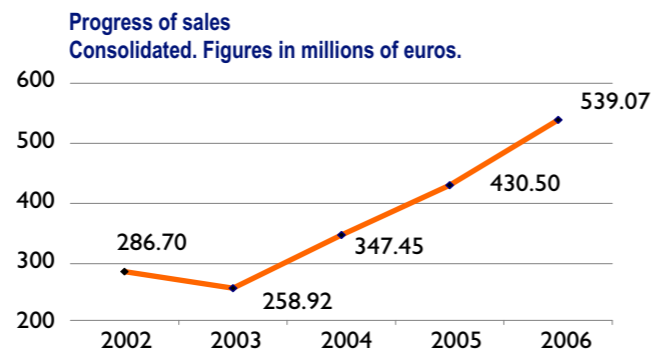
Demand from the world market regarding projects increased with respect to the already very good situation that existed in 2005, making it possible to take advantage of the competitive advantages that the Group has in this high added value market.

Performance was positive in all geographical regions. The European and North American markets were characterised by a large increase in incoming orders, while in the rest of the world the profitability levels reached all-time maximums. In general, the positive situation of the order book has allowed the Company to select the most profitable orders, which has been reflected in the income statement for 2006 and will surely do the same in 2007.

In Europe, the Company's presence in special high added-value steels, basically high alloy nickel steels and austenitic-ferritic steels, has been reinforced, while its positioning in standard products has also improved thanks to a high service level.

The North American market also continues its positive evolution as regards an increase in volume and in portfolio. Growth in special stainless steel sales was very important, with the North American market as a whole providing TUBACEX with very high profitability levels.

In the rest of the world, important growth was registered, both in number and in size, for new investment projects in the oil and gas sectors, as well as in new facilities for the chemical and petrochemical sectors. This situation made it possible to choose highly profitable orders.



**GEOGRAPHICAL BREAKDOWN OF SALES**

MARKET	2006	2005	2004	2006/2005
EUROPEAN UNION (1)	352.45	274.67	232.13	+28.3%
REST OF EUROPE	15.88	8.59	4.46	+84.9%
U.S.A. - CANADA	102.01	93.44	71.72	+9.2%
FAR EAST	38.85	38.20	27.08	+1.7%
MIDDLE EAST	18.58	9.27	2.99	+100.4%
OTHERS	11.30	6.33	9.07	+78.5%
<b>TOTAL SALES</b>	<b>539.07</b>	<b>430.50</b>	<b>347.45</b>	<b>+25.2%</b>

(1) In 2003 there were 15 countries in the European Union, as opposed to the current 25. TUBACEX consolidated. Figures in millions of euros.

A strong increase in demand was also recorded in Asia, particularly in China, where TUBACEX has consolidated its presence following the opening in late 2004 of a sales office in Shanghai, responsible for coordinating the Group's commercial activity in China and the Pacific region. The growth in demand in this region is attributable to the dynamism of the economies of Asia's leading industrial powers, headed by China and India.

**Stainless steel billet and round bar**

Acería de Álava's revenue from sales of stainless steel billet and round bar to third parties went up in 2006, with an increase of 12% in sales value, although the quantity in tonnes decreased slightly due to greater internal demand from Group subsidiaries that manufacture tubes (TTI and SBER).

Sales of high added-value products, such as special alloy steels, especially duplex and super duplex grades, and round bars for direct machining, became consolidated during the year. To this effect, it must be emphasised that steels of this kind, and non-austenitic grades in general, doubled in importance between 2003 and 2006, and in this latest financial year already accounted for 38.5% of Acería de Álava sales to third parties, continuing the upward trend of recent years.

The total sales of Acería de Álava in 2006 amounted to €284.15m, setting a record figure for this subsidiary and representing an increase of 19.6%. Over the year around 35% of these sales, almost €100m, were made to companies outside the Group.

**Sales office in São Paulo**

TUBACEX opened a new sales office in the Brazilian city of Sao Paulo in 2006, staffed by its own personnel, with the aim of boosting Group activity in Latin America. The new sales office, to be called TUBACEX LATINOAMÉRICA, is responsible for coordinating the Group's commercial network in South and Central America. In North America, TUBACEX already has established sales offices in the U.S.A. and Canada.

With this new sales office, TUBACEX will improve its attention to current customers in Latin America, enable it to be closer to new customers and take advantage of the good growth prospects in demand for tubes expected in the oil-producing countries in the area.

The commercial aspects of the Strategic Plan 2010 include reinforcing the Group's presence in those areas where greater growth in demand for tubes is expected in coming years. To this effect, TUBACEX opened a sales office in Shanghai in 2005 in order to increase its presence in the Far East, the market with the greatest growth potential, and has opened another in Dubai in February 2007 to promote sales in the Middle East.

With the new office now open in Sao Paolo, the TUBACEX Group has a total of fourteen sales offices in twelve countries and also has exclusive sales agents in another thirty countries spread throughout the world, thereby providing a response to the internationalisation process initiated several years ago, which has enabled the Company to become the second largest seamless stainless steel tube manufacturer in the world.

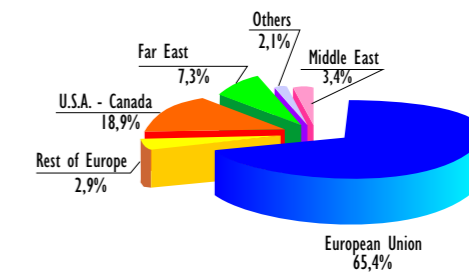
**Sales by markets**

By markets, sales in the European Union, the Company's natural market, reached a total of €352.45m, representing 65.4% of total sales, confirmation of the Group's commercial consolidation in this market. The improved sales in the region reflect the upturn in the economic situation in the EU as a whole, and were 28.3% up on the 2005 figure of €274.67m.

**\*Sales in the European Union rose by 28.3%**

**\*Sales in the Middle East doubled and now account for 3.4% of the total**

**Geographical breakdown of TUBACEX Group sales**



Sales in the rest of Europe surged by 84.9% to €15.88m.

Sales in the U.S.A. and Canada, in spite of the continuing strength of the euro against the dollar, grew by 9.2%, going up from €93.44m in 2005 to €102.01m in 2006. Sales in the North American market accounted for 18.9% of consolidated sales in the financial year.

Turning to the Far East, sales reached €38.85m, accounting for 7.3% of the Group's total figure. Sales in the region increased by 1.7% compared to 2005.

Finally, it must be highlighted that sales in the Middle East doubled in 2006 and reached a total amount of €18.58m. Sales in this region, where TUBACEX opened a sales office early in 2007, represented 3.4% of the Group's consolidated sales.

**2.- INDUSTRIAL ACTIVITY**

From the industrial point of view, high production and productivity levels were recorded in financial year 2006.

Over the course of the year, TUBACEX continued to develop its programme for increasing productivity, reinforcing synergies between the various companies that make up the Group, centring its attention both on cost reduction and effective purchasing as well as enhancing product quality and competitiveness and customer service. In doing so, the focus has been on the strategic orientation of the Group and the importance of planning and adopting a realistic approach in adapting people, structures, processes and investment plans.

**\*The average price of nickel went up by almost 65% in 2006**

**\*New products are being developed for oil well drilling and operation**

In a similar vein, TUBACEX has also continued to promote the manufacturing and marketing of high value-added and technologically advanced products.

**Raw materials**

The essential raw materials used in the manufacture of stainless steel – produced at the Acería de Álava subsidiary and then processed into tubes at other Group factories – are stainless steel scrap and nickel. Average prices of both commodities rose quite steeply yet again last year.

Raw materials prices remained very high throughout the year, driven by intense speculative activity, as

a result of strong growth in the stainless steel market and of increases in consumption, production and imports recorded in China for a further year. Also, in the case of nickel, prices were affected by interruptions in production that took place during the year.

Average nickel prices rose by 64.5% during 2006, a figure which has to be added to increases of 6.7% in 2005, 44% in 2004, 42% in 2003 and 14% in 2002. The average price of nickel in 2006 was \$24,250 per tonne, as opposed to the \$14,744 per tonne average in 2005.

Between 2001 and 2006 the average price of nickel rose by more than 300%, rising from \$5,958 per tonne to \$24,250 per tonne in the last financial year.

As far as stainless steel scrap is concerned, the average price rose over the year by 50.6% compared to 2005 prices.

On the contrary, however, there was a drop of 22.5% in molybdenum prices during the year, falling from an average of \$70,435 per tonne in 2005 to \$54,590 per tonne in 2006. In spite of this decrease in the last financial year, the price of molybdenum has multiplied by 4.7 times since 2003, when it cost \$11,581 per tonne.

**Investments**

With the fundamental aim of implementing its Competitiveness Scheme, TUBACEX invested an amount of €11.34m during 2006, a figure which is slightly lower than that for investments undertaken in 2005, which totalled €12m.

Having now completed the strategic investment programmes the Company has been engaged in over the last few years following its recent expansion in the international market, TUBACEX still maintains a stringent investment

selection policy, based on exhaustive analysis in terms of expected yield.

In this respect it should be pointed out that in the period 1998-2006 the TUBACEX Group invested a total of €106.59m in expanding and upgrading facilities at its factories, a figure that represents an average annual investment of €11.83m over this period.

This consistent, ongoing investment policy is also enabling strategic investments to be made (high value-added and technologically advanced products), as well as the continuation of the maintenance and renewal of equipment, all of which is designed to improve costs, output and quality. It is these factors that have helped the TUBACEX Group factories establish themselves among the most competitive of their kind in the world.

At the same time, the Group's industrial focus is on the search for solutions to the requirements and problems of its customers, mainly stockists and engineering firms. In this respect it ought to be pointed out that the products manufactured by TUBACEX are designed for sectors that are constantly evolving, thus necessitating the constant review and updating of the Company's investment and R&D policies.



The strategic investments carried out in 2006 include several which are particularly noteworthy, directly linked as they are to the Competitiveness Scheme. These investments, involving a total amount in excess of €3m was chiefly concentrated in TTI and, to a lesser degree, in the Group's North American subsidiary, Salem Tube.

**\*Investments in the financial year totalled €11.34m**

**\*A new cold rolling mill for tubes was installed in Amurrio**

One item that stands out among these investments is the installation of a new Pilger type cold rolling mill in the TTI factory in Amurrio, to meet increased demand for this high added value product.

Another important investment worthy of note was carried out to increase the materials heating capacity in the production process at the extrusion press in the TTI factory in Llodio,

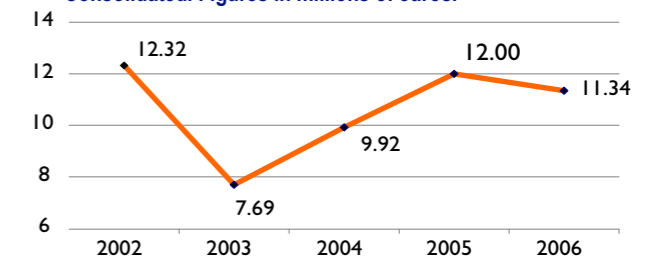
enabling important increases to be achieved in the productivity of this facility, which is basic in the Group's production process.

On the other hand, the investments carried out during the year in Acería de Álava for an amount of approximately 3 million euros must also be mentioned. Leading items here were the extension and improvement of the raw materials yard to enable better classification of the different types of scrap and ferroalloys, and modernisation of the AOD electronic control systems.

Installation of monitoring systems for the entire industrial process at the Acería de Álava and TTI plants in Amurrio also took place during the year.

The remaining investments, for a joint total amount of approximately €5m, are distributed among all the Group subsidiaries and allocated towards diverse improvements linked to the efficiency of the key facilities in the manufacturing process of the different factories, to the maintenance and replacement of industrial equipment, to improving quality, to raising the added value of products and to respect for the environment.

**Progress of investments**  
Consolidated. Figures in millions of euros.

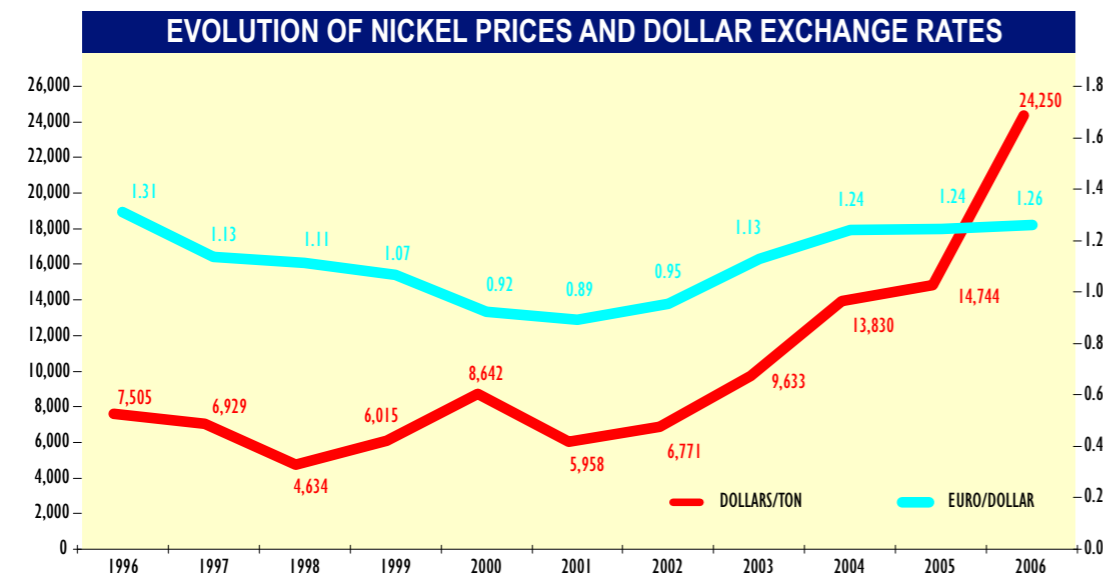


**Research and development**

The Company's R&D work focuses mainly on improving manufacturing processes, developing new types of high added-value steel and researching the application of products manufactured by the Group in new industrial sectors.

Development continued in 2006 of work initiated in 2004 on the development of a tube highly resistant to corrosion and especially designed for use in drilling and production at oil wells under extreme conditions.

To this effect, the objective of designing a suitable process to achieve better mechanical properties in nickel-based alloy steel tubes with an austenitic matrix was accomplished during the year, and work commenced to develop a new even more corrosion-resistant alloy, for use in the presence of high concentrations of hydrogen sulphide (H<sub>2</sub>S) and carbon dioxide (CO<sub>2</sub>).



In addition, a programme spanning several years has commenced in a bid to develop several grades of steel and nickel alloys adapted to the new requirements of power generation facilities. Enhancing the efficiency of such facilities is based, to a great extent, on the possibility of applying ever increasing temperatures and pressures in processes, for which it is necessary to provide materials with suitable characteristics as regards creep, corrosion and oxidation. The project will take place over three years and a cooperation agreement has been signed with the CEIT technological research centre for this purpose.

Another two-year research programme with the same centre finished in 2006, to improve performance in the heat treatment processes at TTI and Acerálava.

Finally, with the aim of optimising the process of manufacturing stainless grades stabilised with titanium, redesign of the casting process at Acerálava has begun, in cooperation with LABEIN technological research centre, which should lead to improvement that affects all materials produced.

#### Quality

All the subsidiaries in the Group, whether industrial or trading companies, have UNE-EN-ISO 9001:2000 certification for their production and marketing processes. Moreover, the Group holds product certificates awarded by the leading certification bodies in Europe, the U.S.A. and Japan.

In 2006 the scope of the certificates as approved manufacturers of materials in accordance with the AD 2000-Merkblatt W0/TRD 100 Code and European Pressure Equipment Directive PED 97/23/EC were extended to include the Ternitz plant, making it possible for TTI to certify materials manufactured at the Austrian plant.

In the same way, TTI obtained certification as manufacturers of duplex and super duplex tube materials in accordance with NORSOK M-650 Rev. 3. This approval enables the Company to supply materials for oil facilities in the North Sea area and to engineering firms and end users related with this activity.

#### Environmental management

TUBACEX, which has committed itself to performing its activities with respect for the environmental as one of its priority strategies, is progressively introducing a system of minimising the environmental impact caused by its activity (waste, atmosphere, water, noise, energy, etc.) in all Group business units. This is being achieved by the use of economically viable clean technologies and by establishing the measures required for pollution prevention in all operating situations, including emergency ones.

Consequently, Tubacex Tubos Inoxidables, Acería de Álava and Schoeller-Bleckmann Edelstahlrohr currently have certificates for Environmental Management Systems in accordance with ISO 14001 issued by a Standardisation and Certification organisation. Therefore, the entire production process at the TUBACEX Group plants in Llodio, Amurrio and Ternitz, from reception of raw materials and production of stainless steel by Acería de Álava to dispatch of tubes manufactured by TTI and SBER is backed by an organisation that accredits its environmental management.

In order to obtain these certificates it has been necessary to systematise environment-related activities, with active involvement of the workforce, which has required an extensive training programme in recent years, as well as a considerable investment, leading to a Group reduction of environmental hazards. It is estimated that 30% of the Group's investments include an environmental factor. Investments in environmental equipment for an approximate value of €6.6m were carried out in 2006.

During the financial year, after adaptation of facilities to existing environmental requirements carried out in recent years and certification and consolidation of Environmental Management Systems, the basic projects have been prepared and presented with a view to obtaining Integrated Environmental Authorisation for the production centres of Acerálava, TTI Llodio, TTI Amurrio and the Acerálava dump. This new authorisation will mean a complete review of the environmental aspects of activity and verification that the best available technologies from the environmental point of view are being applied.

Moreover, work has continued on the Sectoral Environmental Agreements for Steel and Surface Treatments signed in previous years with the Basque Government, with a satisfactory level of fulfilment of targets.

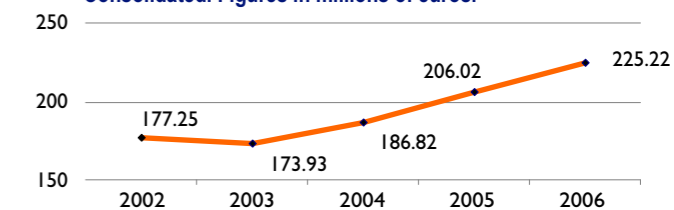
Likewise, as a pilot experience, the facility to regenerate pickling baths at the TTI plant in Amurrio was put into operation. Once consolidated, it is intended to extend this technology to other production centres in the Group. This new facility means significant environmental improvement due to reductions in consumption of raw materials and production of waste.

#### Dividend payment

In 2006, TUBACEX paid its shareholders two dividends, for a joint amount of €0.0776 gross per share, charged against the 2005 profits, due to the good results posted by the company for that period. The dividend is up by 50.7% on the one paid out in the previous year, which was €0.0515 gross per share.

An ordinary dividend of €0.0543 gross per share was paid out in July, while a supplementary dividend of €0.0233 gross per share was paid in September.

Progress of net worth (equity)  
Consolidated. Figures in millions of euros.



### 3- FINANCIAL ACTIVITY

TUBACEX is in a strong financial position, with its equity, totalling €225.22m, accounting for 41.7% of the company's total liabilities. The equity increased by 9.3% in 2006.

Once again, the Group has generated positive funds, reaching a cash flow of €47.69m, 16.1% up on the previous year.

Over the last five financial years, TUBACEX has generated a net cash flow of €172.92m.

The amount allocated to dividends during the year amounted to €10.17m, a figure that represents a pay-out of 40% of the profits for financial year 2005, which totalled €25.42m and is the highest dividend ever paid out in the history of the Company.

Since the resumption of shareholder remuneration, TUBACEX has allocated a total of €60.58m to this concept, a figure that tallies with 36.1% of the profits obtained between 1996 and 2005.

The Company intends to continue with the dividend as a means of remuneration, but does not rule out using other additional formulas, aimed at paying out between 30 and 40% of the annual profits as shareholder remuneration. Exceptionally, if there is a positive economic situation, this percentage may be increased, as was the case in 2005.



#### PROGRESS OF REMUNERATION FOR SHAREHOLDERS

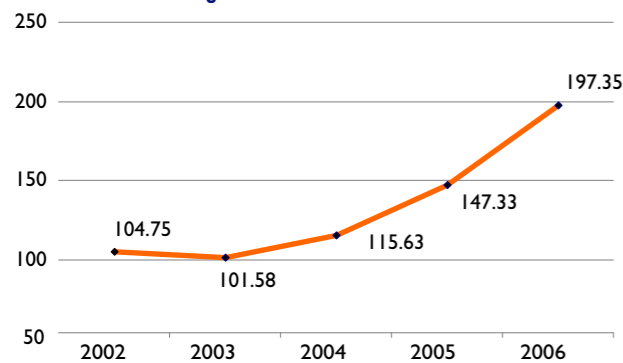
	2006 (1)	2005	2004	2003	2002
DIVIDEND (in euros gross per share)	0.078	0.051	0.018	0.042	0.042
DIVIDEND/LISTED PRICE (%)	1.57	1.42	0.95	2.96	3.36
TOTAL AMOUNT OF THE DIVIDEND (in millions of euros)	10.17	6.76	2.42	5.58	5.58
DIVIDEND/PROFIT (Pay-out) (%) (2)	40.0	50.0 (3)	40.0	34.2	36.0

(1) In addition, a premium of €0.01 gross per share was paid for attending the AGM in 2006, resulting in payment of a total of €1.1m. (2) Of the net profits of the previous year. (3) Profits of €13.51m were posted for 2004 according to Spanish Accounting Legislation, in force at the time when the dividend payment was approved.

**Payment of attendance premium**

In 2006 the Board of Directors of TUBACEX also agreed payment of an attendance premium of €0.01 gross per share either present or represented at the AGM on 25 May, with the aim of increasing attendance and reaching the quorum of 80% required so as to be able to remove the protective clauses that existed in the By-Laws. The quorum finally reached was 81.58%, which meant payment of almost €1.1m and made it possible to vote on and approve removal of the said protective measures.

**Progress of financial debts  
Consolidated. Figures in millions of euros.**



**4.- HUMAN RESOURCES**

In 2006 the average size of the workforce in the companies that make up the TUBACEX Group was 1,771. Of these, 1,093 people are employed at the Group's Spanish plants and 678 are employed in overseas subsidiaries.

The size of the Group's average workforce rose by 143 over the year. The workforce in Spain increased by 13.4% and by 2% overseas.

Sales per employee rose to €304,389, 15.1% up on the 2005 figure of €264,435.

**Training**

In 2006 a total of 431 training courses were held in the Group's various companies. The courses were attended by a total of 4,036 people.

In total almost 26,000 hours of training were given, representing an increase of 4.3% over the total number of training hours for 2005. The number of training hours per employee amounted to 14.6 hours.

The most significant training sectors during the year were languages, which accounted for 28% of the total hours, followed by quality and the environment (19%), management (17%), maintenance (14%) and prevention (11%).

Training given to workers, whether inside the Company or outside, is subject to a satisfaction survey. The average score for training activities resulting from this survey is 7.8 out of 10, with the following concepts being evaluated: contents, trainer, methodology and means, facilities, organisation and overall appraisal.

In addition, training is also the subject of a usefulness survey, trying to check whether the training activity meets the needs that brought about its initiation. The average obtained in 2006 was 3.6 out of 5.

During the year TUBACEX allocated €0.82m to training, an increase of 6.5% on the figure for 2005. Over the last five years the Company has invested a total of €3.62m in training for its employees.

**\*The average workforce of TUBACEX has risen to 1,771 persons**

**\*Almost 26,000 hours of training were given during the year**

**Prevention of occupational hazards**

En The implementation of the Prevention of Occupational Hazards Programme, introduced in 1996 and based on the philosophy of integrated safety, continued at TTI and Acerálava during 2006.



Each year, the preventive action to be taken is identified and an Annual Management Plan is drafted, specifying objectives and the managers responsible for overseeing it. Since its introduction the Plan has involved a large part of the Company's human resources and a significant percentage of its material resources.

During the course of 2005 an in-depth analysis of the existing programme was conducted with a view to adapting it to the international OHSAS 18001 Standard, marking the beginning of a new phase in the drive towards obtaining ISO certification. The programme currently consists of 18 activities (as opposed to the previous 16 activities) following the incorporation of non-conformity and internal auditing procedures.

Both TTI and Acerálava are expected to obtain OHSAS 18001 certification during the first half of 2007, with which they would join the small number of Spanish companies to be awarded such certificates and thereby endorsing the intense work which has been carried out in recent years.

The 2006 Prevention Plan consisted of 1,005 actions, and the compliance rate achieved was 95%, therefore exceeding the strategic objective of achieving a minimum compliance rate of 85%.

Extensive information concerning prevention and all other aspects relating to human resources is contained in the Report on Corporate Social Responsibility.

**5.- STRATEGIC PLAN 2010**

At the end of 2004 TUBACEX approved its Strategic Plan. It has continued to work on the Plan since that point, the objective being to safeguard future growth and profitability and to make the Company the world's leading producer of seamless stainless steel tubes. The Plan is committed to profitable organic growth, minimises the Group's investment requirements and maximises the creation of value for shareholders.

From an industrial point of view, TUBACEX aims to reach new levels of productivity and profitability by capitalising on the synergies between plants, thereby substantially improving the competitive position of the Group without the need for major investment. Other noteworthy aspects include specialised production at each plant, the reduction of costs, in addition to the manufacture of new products, steels and higher value-added applications.

**Commercial excellence**

From a commercial viewpoint, the Strategic Plan is oriented towards increased growth in regions and products with the greatest potential as well as commercial excellence in customer service, and seeks to strengthen the Company's profile and commercial position in Asia and the U.S.A. These are two markets in which demand is expected to grow along with market penetration among end users of the Company's products. Another objective is to consolidate existing profitability levels in the European distribution market.



The opening of new sales offices in Shanghai (2005), São Paulo (2006) and Dubai (early in 2007), in order to coordinate commercial activity in the Asia-Pacific, Latin American and Middle East areas, respectively, are contributing towards achieving these objectives.

Application of the policies foreseen in the Plan, together with the positive market situation currently being experienced, have enable a great many of the sales targets and financial ratios anticipated for time horizon 2010 to have already been achieved. Nevertheless, TUBACEX will continue working to reach the proposed goals and to occupy the leading position in the seamless stainless steel tube manufacturing sector.

# GENERAL REPORT TO SHAREHOLDERS

## Strengthening the Organisation

The present and future challenges and business opportunities presented by the market make it necessary to strengthen human resources to the maximum, redefine and simplify the organisation model and adapt TUBACEX management structures to the maximum development of the Strategic Plan.

These challenges require actions to be taken at both strategic and operational level, as a result of which the Board of Directors agreed in September to reinforce the strategic role of the President by appointing a General Manager to take on full authority over executive management functions of the seamless stainless steel tubes business.

The Board agreed to appoint Mr. Guillermo Ruiz-Longarte, who had been Financial Manager of the Group until that time, to this position, with effect from 1 October.

**\*Committed to higher added value products which are in increasing demand**

**\*TUBACEX aspires to become the world's leading manufacturer of seamless stainless steel tubes**

## Competitiveness Scheme

In 2003 TUBACEX started the implementation of an ambitious Competitiveness Scheme in the leading companies in the Group -Acerálava, TTI and SBER- in order to capitalise on industrial synergies and maximise the economies of scale deriving from the Group's industrial configuration, with the aim of improving operating margins and achieving a differentiated competitive position in productivity and costs.

Following an initial phase involving the analysis and identification of areas to be improved, a number of projects focusing on increasing competitiveness at the Company's facilities were embarked on in 2004 and 2005. These projects aimed to bring about increased steel production volume, improvements in extrusion press and cold-rolled tube output, an improved supply product mix from Acerálava and SBER, monitoring of the Llodio and Amurrio plants as well as reductions in maintenance costs. These actions are set to continue throughout 2007.

The implementation of the cost and productivity improvement projects included within this Scheme has played a major role in the Company's excellent results for 2006.

The Competitiveness Scheme and the Strategic Plan dovetail with each other and are designed to make the Group more competitive and efficient in its main areas of production and marketing, while at the same time seeking to increase operating margins.

