

GENERAL REPORT TO SHAREHOLDERS

TUBACEX once again set new all-time records as regards its figures for sales, gross operating profit (EBITDA) and net profit in financial year 2007. For yet another year, a fundamental role in obtaining these figures was played by the favourable market situation in terms of demand for seamless stainless steel tubes, with extraordinary activity in investment projects for the oil and gas sectors, as well as the intensive efforts that the Company has been making in improving competitiveness and in application of the TUBACEX Strategic Plan 2010.

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

*Consolidated sales amounted to €696.73m, 29.2% up on 2006.

*The gross operating profit (EBITDA) rose to €106.17m, making it 65.8% higher than the previous year, when it stood at €64.03m.

*The consolidated operating profit (EBIT) rose to €89.47m, making it 89.2% higher than the previous year, when it stood at €47.29m.

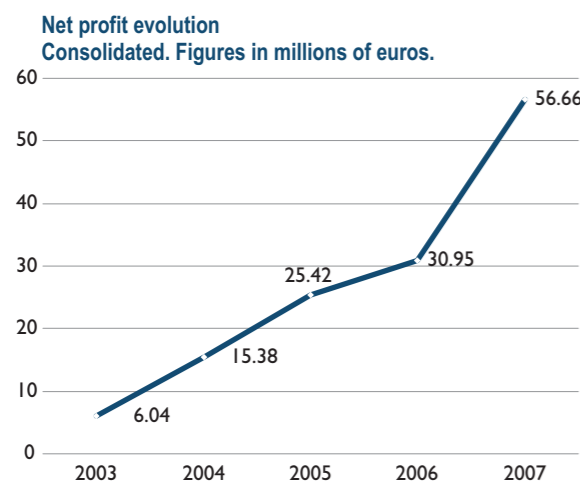
*The consolidated net profit reached €56.66m, representing an increase of 83.1% over the figure achieved in 2006, when it totalled €30.95m.

Economic environment

***Consolidated sales grew by 29.2% and reached almost €700m**

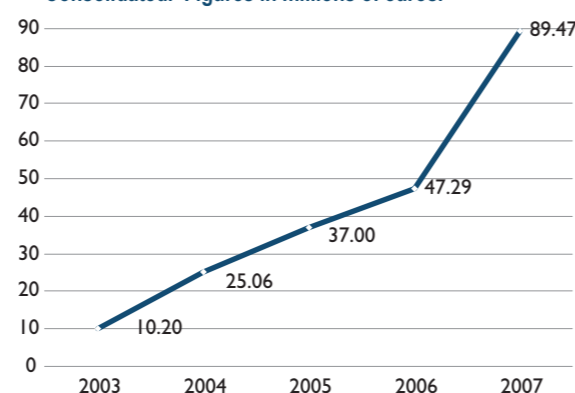
***New all-time records for sales, EBITDA and net profit**

In spite of the problems that arose in the U.S.A. in the second half, the strength of the world economy continued throughout 2007, increasing by 4.9% overall, founded mainly on the growth of the emerging and developing economies, especially China (+11.4%), India (+9.2%) and Russia (+8.1%), and the positive situation in the European Union, with growth of 2.6% in the Eurozone, slightly lower than the preceding year.

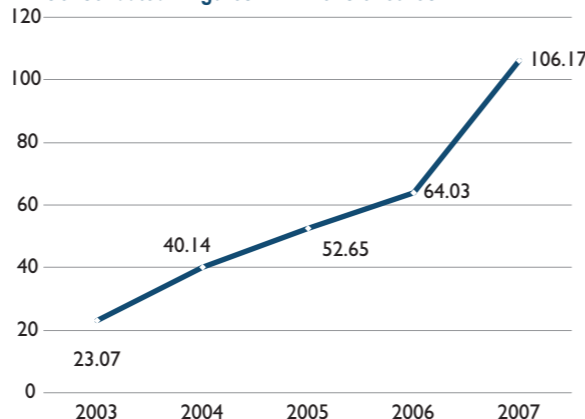


This favourable situation of the international economy, and especially the high oil prices, with a barrel of Brent crude reaching 100 dollars at the end of the year, has reactivated many investment projects in basic demand sectors for tubes, such as oil and gas, petrochemicals, chemicals and energy. This brought with it an increase in demand and higher prices for the products manufactured by the Group.

Operating profit (EBIT) evolution Consolidated. Figures in millions of euros.



Gross operating profit (EBITDA) evolution Consolidated. Figures in millions of euros.



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. This happened above all in the market 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.

The strength of the market enabled TUBACEX to set a new all-time record for sales, which rose to €696.73m in 2007, and therefore an increase of 29.2% over the previous year. All markets have contributed to this growth, although we can highlight the good evolution of Europe and the United States, with all-time high levels of order intake.

In the same way, the Asian market has continued its positive evolution, especially in India and China, as a result of the dynamic situation the economies in that area are experiencing.

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. The average exchange rate for the euro in 2007 was 1.38 dollars, compared to an average of 1.26 in 2006, which means an appreciation of 9.5%. Moreover, the euro has also appreciated against the Japanese yen by more than 10%.

Although the favourable market situation has made it possible to partly compensate for the effects of this situation, 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 scrap and nickel, again rose sharply in 2007, brought about by high levels of world demand and by the speculative movements that took place concerning these materials. In the case of nickel and molybdenum, part of the price increase was caused by the depreciation of the dollar, the currency in which these metals are traded.

As a result of this situation, the average price of nickel - an essential element in the manufacture of stainless steel - rose by 53.5% during 2007, reaching an average price of \$37,230 per tonne, after having exceeded \$52,000 in the month of May. Moreover, the price of scrap also went up by 37.8% during the year.

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

Increased profits

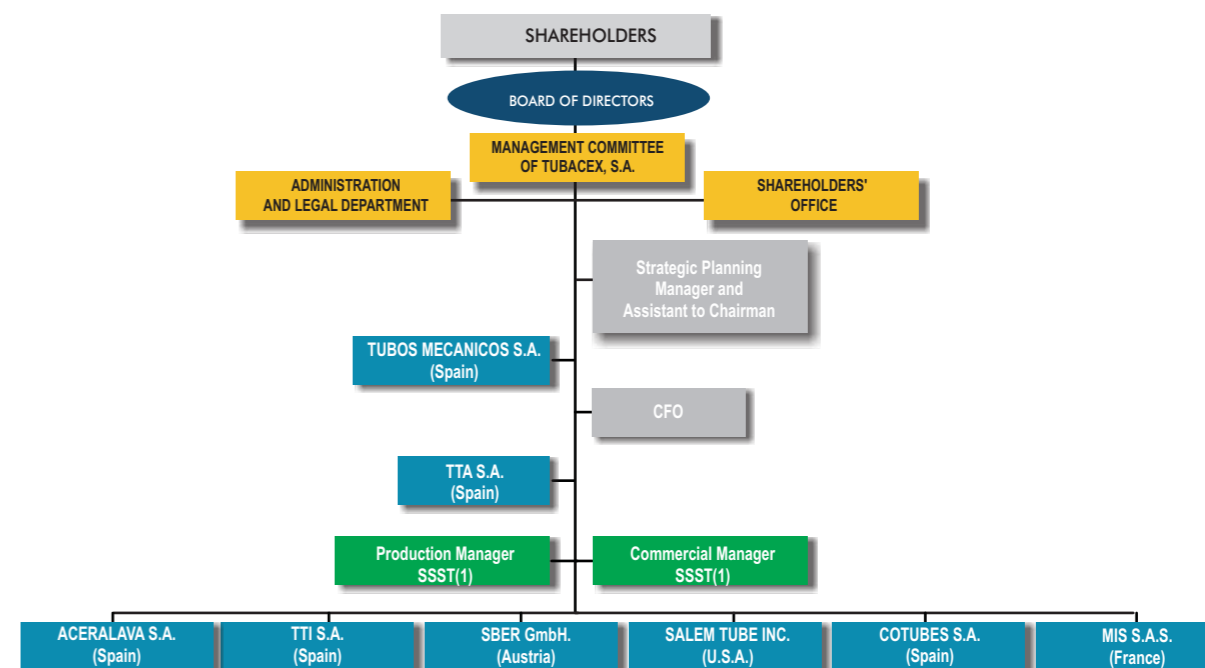
In 2007 TUBACEX obtained a net profit of €56.66m, 83.1% more than in the preceding financial year.

The high degree of competitiveness achieved by the Company has enabled levels of EBITDA, operating profit and net profit to sales figures of 15.3%, 12.8% and 8.1%, respectively, to be obtained.

***Net profit amounted to €56.66m**

***EBITDA rose to €106.17m**

ORGANISATIONAL STRUCTURE OF THE TUBACEX GROUP



(1) SSST: Seamless Stainless Steel Tubes

As at 31 December 2007, the Company's net equity stood at €265.85m, accounting for 44.1% of the Group's total liabilities.

Results of subsidiaries

Financial year 2007 proved to be very positive for all the Group's subsidiaries, which obtained important increases in their sales and profits figures, setting new records in all of them.

Among the industrial subsidiaries of the Group, the good overall performance of those located in Europe (Acerálava, TTI and SBER) must be highlighted, as they obtained important increases in their sales, EBITDA and net profit figures.

The North American subsidiary Salem Tube, on its part, again improved its results, both in turnover and in profits.

Leading the way among the trading companies was Grupo Tubos Mécnicos, which continued to achieve a high level of profitability, and Cotubes, which improved its profits by 44.6%.

Competitiveness and strategy

***The Company has achieved record levels of order intake**

***The Company's biggest ever dividend was paid out in 2007**

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 20% in its range of

products.

TUBACEX is going 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, with the aim being to continue growing profitably and to generate maximum value in the process.

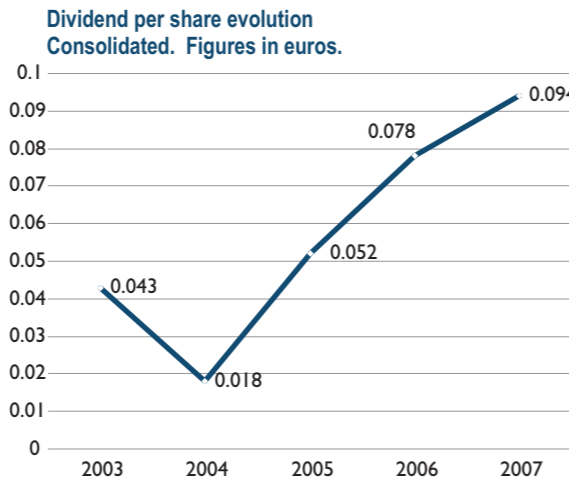
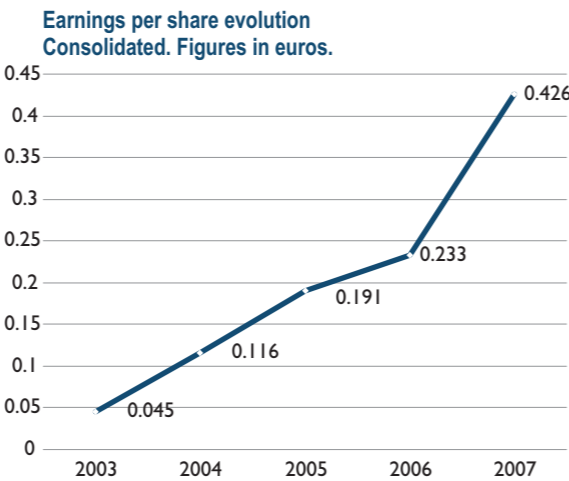
Furthermore, at the end of 2004 TUBACEX began implementing its Strategic Plan 2010, aimed at guaranteeing future growth and profitability and making the company the world's leading seamless stainless steel tube manufacturer.

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.

A considerable part of the strategic approaches of this Plan, especially those of a financial nature, have already been achieved and even surpassed throughout 2007, leading the Company to decide to promote a new strategic reflection process with a 2012 time frame.

Dividend payment

During 2007, TUBACEX paid its shareholders a dividend of €0.0944 gross per share, charged against the 2006 profits, meaning an increase of 21.8% 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 €12.38m, a figure that represents a pay-out of 40% of the profits for financial year 2006, which totalled €30.95m.

Stock Market: 35% appreciation

During the last financial year the TUBACEX shares posted a 35.2% gain, rising from €4.94 per share on the last day of trading in 2006 to €6.68 per share at the end of December 2007.

This is the seventh consecutive year in which the listed value of the TUBACEX stock has risen, jointly amounting to an overall increase of 507.3% compared to the share value at year-end in 2000 (€1.10 per share).

A total of 276.63 million TUBACEX shares were traded during 2007 (up 5% over 2006) for the total value of €1,713.14m, a figure which is 41.1% higher than the traded volume in the preceding year.

The market capitalisation of the Company at year end on 31 December 2007 was €888.30m.

New office in Dubai

In 2007 TUBACEX has opened a new sales office in Dubai (United Arab Emirates), staffed by its own personnel, with the aim of increasing the industrial Group's activity in the Middle East. The new sales office will be responsible for coordinating the Group's sales network in this region, where several of the world's leading oil and gas producing countries are located, such as Saudi Arabia, Kuwait, United Arab Emirates, Iran, Iraq, Qatar, Bahrain, Yemen and Oman, and where a large part of the production investment projects in these sectors are currently concentrated.

OHSAS 18001 certification obtained

During 2007 Group subsidiaries TTI and Acerálava were awarded OHSAS 18001 certification for their occupational health and safety management system, placing them in a leading position among European companies in the continuous improvement of working conditions and prevention of occupational hazards.

Awards

Throughout 2007 TUBACEX and its subsidiaries obtained several awards in recognition of the Company's track record in aspects such as international presence, transparency of information and occupational safety.

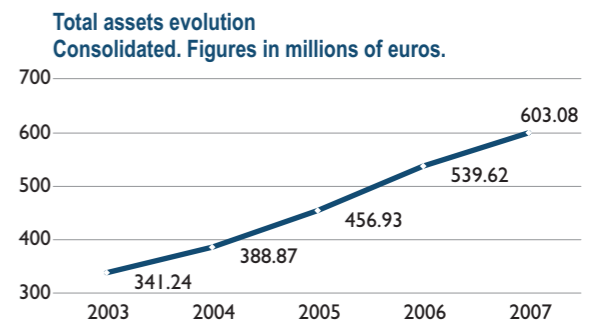
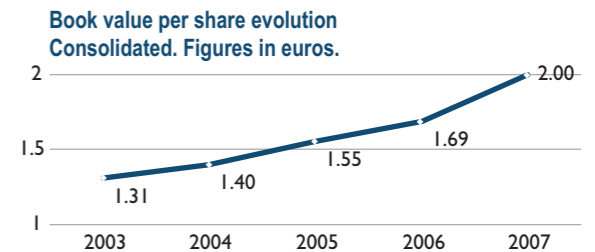


In the foreign markets sector, TUBACEX obtained the "Prince Philip Award for Business Excellence" in the Internationalisation category, awarded by the Ministry of Industry, Tourism and Trade, the "Made in Euskadi" award, presented by the Basque Company and Society Foundation, the "Alava Exportation Award", conferred by the Alava Chamber of Commerce and Industry and the "Mercurio d'Oro Città de Milano", awarded by the region of Lombardy and obtained by the Italian commercial office.

***TUBACEX is preparing a new Strategic Plan with a 2012 time frame**

With regard to worker protection, the Tubacex Tubos Inoxidables and Acerálava subsidiaries have received the "MAPE Award for Occupational Safety" for excellence in occupational hazard prevention management.

TUBACEX also received an honorary mention in the "Award for Spanish companies with best financial reporting on Internet", in the category for companies not belonging to the IBEX 35, awarded by the Spanish Business Administration and Accounting Association (AECA).



KEY EVENTS DURING 2007

FEBRUARY

*TUBACEX opens a sales office in Dubai to promote the Group's activity in the Middle East.

MARCH

TUBACEX receives the "Prince Philip Award for Business Excellence" in the "Internationalisation" category, granted by the Ministry of Industry, Tourism and Trade.

*The shareholder Bagoeta, S.L. informs that it is raising its stake in TUBACEX to 18.09%.

MAY

*The Ordinary General Meeting of Shareholders approved the annual accounts for financial year 2006 and the payment of a dividend of €0.0944 gross per share, meaning a total pay-out of €12.38m.

*The AGM also approves the re-election of the Chairman of the Board of Directors, Mr. Álvaro Videgain, for a new six-year term and ratifies the appointment of Atalaya Inversiones S.R.L. to the Board.

JUNE

*The Tubacex Tubos Inoxidables and Acería de Álava obtain OHSAS 18001 certification for their occupational hazard prevention management systems.

JULY

*TUBACEX paid its shareholders an ordinary dividend of €0.0944 gross per share, paid out of 2006 profits.

NOVEMBER

*TUBACEX obtains the "Made in Euskadi" award, presented by the Basque Company and Society Foundation and the Empresa XXI newspaper, in recognition of the Company's international projection.

*TUBACEX ITALIA, the Group's sales office located in Milan, receives the "Mercurio d'Oro Città di Milano", awarded by the region of Lombardy.

DECEMBER

*TUBACEX receives the "Alava Exportation Award", conferred by the Alava Chamber of Commerce and Industry, for its "production and commercial implantation in international markets and the relevant strategic position attained in its sector worldwide".



TUBACEX GROUP BASIC INDICATORS

	2007		2006		2005	
SALES	696.73	+29.2%	539.07	+25.2%	430.50	+23.9%
NET PROFIT	56.66	+83.1%	30.95	+21.7%	25.42	+65.3%
EBITDA	106.17	+65.8%	64.03	+21.6%	52.65	+31.2%

Consolidated TUBACEX. Figures in millions of euros.

PROFITABILITY RATIOS

	2007		2006		2005	
NET PROFIT/SALES	8.13	+41.6%	5.74	-2.8%	5.90	+33.4%
EBITDA/SALES	15.24	+28.3%	11.88	-2.9%	12.23	+5.9%
NET PROFIT/ASSETS	9.40	+63.8%	5.74	+3.1%	5.56	+40.7%
NET PROFIT/EQUITY	21.31	+55.1%	13.74	+11.4%	12.34	+49.9%

Consolidated TUBACEX. Figures as %.

RATIOS PER SHARE PERFORMANCE

	2007		2006		2005	
EARNINGS PER SHARE (EPS)	0.426	+83.1%	0.233	+21.7%	0.191	+65.3%
NET CASH FLOW/SHARE	2.00	+18.0%	1.69	+9.3%	1.55	+10.3%
BOOK VALUE/SHARE	0.094	+21.8%	0.078	+50.5%	0.052	+179.6%
PER (Times)	15.68		21.23		18.73	

Consolidated TUBACEX. Figures in euros

FINANCIAL RESULTS

	2007	2006	2005	2004	2003
FINANCIAL RESULTS	(12.26)	(6.11)	(3.82)	(5.30)	(3.24)
FINANCIAL RESULTS/SALES (%)	(1.76)	(1.13)	(0.89)	(1.53)	(1.25)

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

I.- COMMERCIAL ACTIVITY

The high rate of demand for seamless stainless steel tubes recorded in the two preceding years continued throughout 2007, enabling the TUBACEX Group to post a new all-time record for sales, which rose to €696.73m, showing 29.2% growth over 2006.

Seamless stainless steel tube

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. This happened above all in the market segment regarding demand for projects related with new investments in the oil, gas, petrochemical and electricity generation sectors, at a propitious time due to the high price of oil and its by-products.

The distribution market, after an excellent start to 2007, underwent a logical slowdown in the second half of the year. This was due to movements in the price of nickel,

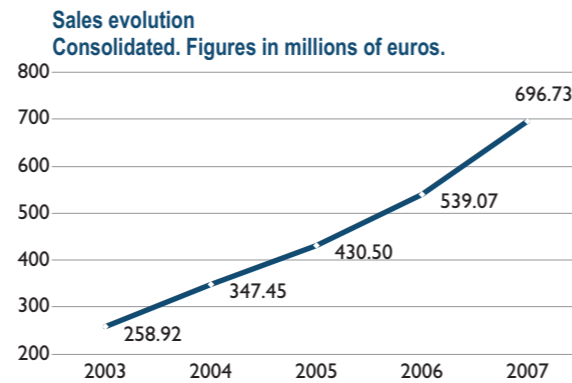
which, after exceeding \$52,000 per tonne half way through the year, finished the year at prices close to \$26,000 per tonne. This is a transient situation and has negligible effects for the Group, due to the strong order book. After recovering the stability in nickel prices, the distribution market demand is again experimenting obvious growth, which makes it possible to foresee positive market evolution and maintaining of market expansion in the short and medium term.

***Sales for 2007 are the highest ever in the history of TUBACEX**

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

The positive market situation has been the general trend in all geographical areas. The European and North American markets have been characterised by a high level of order intake and high margins, although in the case of the United States the second-half profitability was slightly affected by the fall in the price of the dollar against the euro. One excellent piece of news that should be highlighted is the fact that the emerging markets, which have the highest growth potential, have experienced the biggest increases in

profitability at Group level. 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 2007 and will surely do the same in 2008.



In Europe, the positive progress of the German market enabled the nickel price movements to be overcome, improving the Group's position among the large European distributors. The Group has been able to increase its exposure to special steel tubes (superaustenitic steels, high alloy nickel steels and, above all, austenitic-ferritic steels) in the projects market.

The North American market, as already mentioned, was conditioned in the second half of the year by the downward trend of the dollar, although the strength of demand enabled sales to be increased and margins to be maintained.

In the rest of the world there was an important increase in the orders for higher value added products, with a growing weight of projects for the energy and petrochemical sectors, which are in strong expansion in developing countries, especially the Middle East, India and, above all, China.

In general, as stated, demand from the world market regarding projects increased with respect to the already very good situation that existed in 2006, making it possible to maximise the competitive advantages that the

Group has in this high value added market. It must be emphasised that performance was good for all products, even those with the strongest international competition, such as tubes for electricity generation boilers, where the introduction of new developments has enabled higher qualities and margins to be achieved.

Stainless steel billet and round bar

With regard to Acería de Álava's sales of stainless steel billet and round bar to third parties, a positive trend was maintained, although the quantity in tons decreased due to the higher internal demand from Group subsidiaries that manufacture tubes (TTI and SBER).

Sales of high added-value products became consolidated during the year, such as special alloy steels, with the percentage that special alloy steel represent out of the total production increasing considerably.

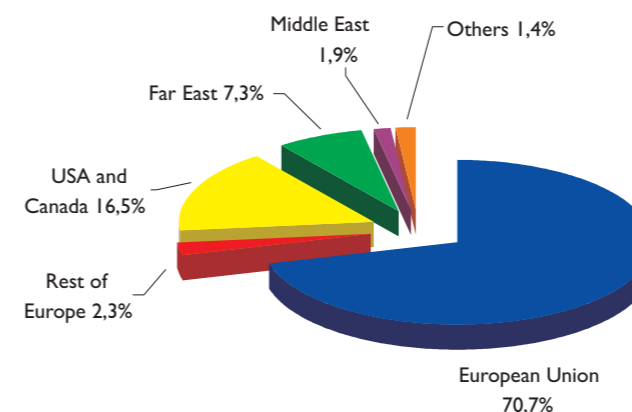
The total sales of Acería de Álava in 2007 amounted to €422.07m, setting a record figure for this subsidiary and representing an increase of 48.5% over the previous year. Around 21% of these sales, almost €90m, were made to companies outside the Group.

Sales by markets

By markets, sales in the European Union, the company's natural market, reached a total of €492.65m, representing 70.7% of total sales, confirmation of the Group's commercial consolidation in this market. Revenue in this area, reflecting the strength of demand for tubes in European Union countries, rose 39.8% on the 2006 figure of €352.45m.

Sales in the rest of Europe grew by 1% up to €16.03m.

Geographical breakdown of TUBACEX in 2007



Invoicing in the U.S.A. and Canada, in spite of the continuing strength of the euro against the dollar, grew by 12.6%, going up from €102.01m in 2006 to €114.88m in 2007. Sales in the North American market accounted for 16.5% of consolidated revenue in the financial year.

***Sales in the European Union rose by 39.8%**

***The positive market situation enables sales of high added-value products to increase**

Sales in the Far East, on their part, reached €50.55m, a figure that represents 7.3% of the Group's consolidated sales total, with an increase of 30.1% over financial year 2006.

Sales office in Dubai

In 2007 TUBACEX opened a new sales office in Dubai (United Arab Emirates), staffed by its own personnel, with the aim of increasing the industrial Group's activity in the Middle East. The new sales office will be responsible for coordinating the Group's sales network in this region, where several of the world's leading oil and gas producing countries are located, such as Saudi Arabia, Kuwait, United Arab Emirates, Iran, Iraq, Qatar, Bahrain, Yemen and Oman.

With this new sales office, TUBACEX will improve its attention to current customers in the Middle East, enable it to be closer to new customers and take advantage of the good growth prospects in expected demand for tubes, since most of the world's investment projects in the oil and gas production sector are concentrated in this region.

Since implementation of its Strategic Plan 2010, TUBACEX has opened sales offices in Shanghai (2005), Brazil (2006) and Dubai (2007) in order to reinforce the Group's presence in those areas where highest growth in demand for tubes is expected in coming years.

***All-time records of order intake have been achieved**

***TUBACEX opened a sales office in Dubai in 2007**

With the new office now open in Dubai, the Company has a total of fourteen sales offices located in twelve countries, as well as exclusive sales agents in another thirty countries spread throughout the world.

GEOGRAPHICAL BREAKDOWN OF SALES

MARKET	2007	2006	2005	2007/2006
EUROPEAN UNION	492.65	352.45	274.67	+39.8%
REST OF EUROPE	16.03	15.88	8.59	+1.0%
U.S.A. - CANADA	114.88	102.01	93.44	+12.6%
FAR EAST	50.55	38.85	38.20	+30.1%
MIDDLE EAST	10.50	18.58	9.27	-43.5%
OTHERS	12.12	11.30	6.33	+7.3%
TOTAL SALES	696.73	539.07	430.50	+29.2%

TUBACEX consolidated. Figures in millions of euros.

2.- INDUSTRIAL ACTIVITY

Financial year 2007 meant a new sales record for the Company, which demanded high production and productivity levels of the entire industrial organisation.

***The average price of nickel went up by almost 54% in 2007**

Throughout 2007, TUBACEX continued to develop its programme for increasing productivity, reinforcing synergies between the different companies inside the Group, focusing 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.

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 maintained highly speculative positions throughout the whole year, as a result of the strong demand for stainless steel, of increases in consumption, production and imports recorded for a further year in China and, in the case of nickel, also because of the relationship between raw material markets and the exchange rate for the dollar, the currency in which they are traded.

Average nickel prices, which were subject to high volatility throughout the whole year, increased by 53.5% in 2007, reaching an average of \$37,230 per tonne. The price even exceeded \$52,000 per tonne in the month of May, although its price then decreased in the second half of the year and closed at \$26,000 per tonne in December.

Between 2001 and 2007 the average price of nickel rose by more than sixfold, rising from \$5,958 per tonne to \$37,230 per tonne in the last financial year.

As regards stainless steel scrap, the average price rose over the year by 37.8% compared to 2006 prices, going up from \$1,902 per tonne to an average of \$2,622 per tonne in 2007.

The average molybdenum price also recorded increases during the year, in this case 31.5%, rising from \$54,590 per tonne in 2006 to \$71,776 per tonne in 2007.

Capital expenditure (CAPEX)

In order to implement its Competitiveness Scheme, TUBACEX invested an amount of €18.37m during 2007, a figure which is 62% higher than that for investments undertaken in 2006, when the figure totalled €11.34m.

The Group continues to implement a rigorous policy of investment selection, based on exhaustive analysis as regards expected profitability. The aims of the Group's investments are still to achieve continuous improvement in the competitive position, as well as adaptation to current and future market conditions.

In the 1998-2007 period, the TUBACEX Group has invested a total of €124.95m in extending and improving its factory facilities, a figure which means an average annual investment of €12.5m.

This consistent, ongoing investment policy is also enabling strategic investments to be undertaken (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, productivity 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 a constant review and updating of the company's investment and R&D policies.

Among the investments carried out in financial year 2007 we can highlight the ones made in TTI to improve the cold rolling and finishing facilities, to optimise the layout of the Amurrio plant and to increase the finished product warehousing facilities. A new crane was installed in Acerálava to transport steel from the casting furnace.

The remaining investments, carried out in other Group subsidiaries, are 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.

Environmental management

In going about its business activities, one of TUBACEX's main strategies is to protect the environment. With this in mind, the Group is gradually introducing a system in each of its business units that minimises the environmental impact of its activities (waste, atmosphere, water, noise, energy, etc.). It hopes to achieve this by using clean, economically viable technologies and by implementing the necessary measures to prevent its operations, including emergency ones, from generating pollution.

Consequently, Tubacex Tubos Inoxidables (2001), Acería de Álava (2002) and Schoeller-Bleckmann Edelstahlrohr (2006) currently have certificates for Environmental Management Systems in accordance with ISO 14001 issued by an accredited standardisation and certification organisation. In this way, the entire production process at the TUBACEX Group's Llodio, Amurrio and Ternitz plants, from the reception of raw materials and the production of stainless steel to the shipment of finished manufactured tubes, has now been approved by an environmental management accreditation body.

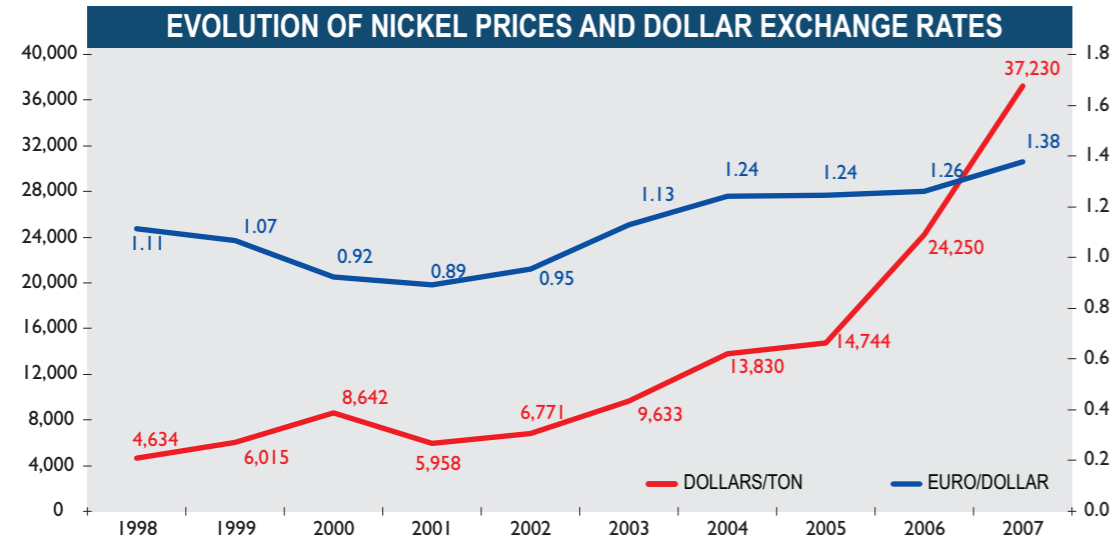
***CAPEX in 2007 totalled €18.37m**

In order to obtain these certificates it has been necessary to systematise environmental-related activities, with the active involvement of the workforce, requiring an extensive training programme in recent years. Significant investment has also been carried out, leading to a reduction of the Group's environmental risks. It is estimated that 30% of the Group's investments in facilities and machinery include an environmental factor. Investments in environmental equipment for an approximate value of €6.82m were carried out in 2007.

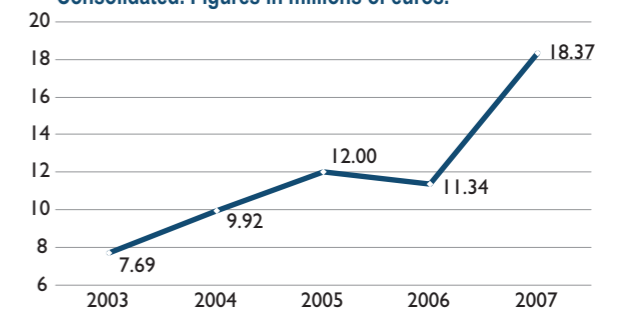
The basic projects aimed to obtaining integrated environmental authorisation for the production centres of Acerálava, TTI-Llodio, TTI-Amurrio and the Acerálava dump were prepared and presented during the year. These projects document the environmental situation of the activity and the improvements carried out in recent years as a result of the introduction and consolidation of environmental management and close cooperation with the public administration within the framework of the environmental agreements.

***All facilities have been awarded ISO 14001 environmental management certificates**

EVOLUTION OF NICKEL PRICES AND DOLLAR EXCHANGE RATES



Capital expenditure (CAPEX) evolution Consolidated. Figures in millions of euros.



3.- INNOVATION

Innovation is one of the key aspects for the future development of the Company shown in the Strategic Plan 2010, in which the concept of "customer discovery" is introduced as a basic requirement in order to be able to identify improvement opportunities and to develop new products and services.

Together with technological innovation, which the company has been performing through its R&D and Quality departments, TUBACEX has been working on a broader

***The TUBACEX group is promoting a concept of transversal innovation**

concept of innovation in recent years, which includes the development of new ideas, concepts, products, services and management practices, with the aim of contributing to increasing productivity and to bigger business efficiency. It is a transversal innovation process that involves the whole Company.

In addition to improving its technological development capabilities, TUBACEX agreed to focus its efforts on non-technological innovation in order to attain a differentiated and sustainable competitive position.

A Section was created, as was an Innovation Committee, whose mission is to establish the strategic guidelines for innovation: to develop an innovation culture in the Company, to select and support ideas for projects, manage the projects portfolio and to plan and prioritise their development.



The Company is currently developing innovation projects on managing knowledge concerning market information (customers, markets and technologies), because changes occurring in the sector make the capability to search for and take advantage of opportunities a basic foundation for its future success.

In addition, a customer service excellence project is being implemented as a result of the Group's new strategy of focusing activity towards higher added value products.

In the same way, a management skills evaluation system is being introduced, which helps the Company's professionals to achieve optimum development.

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 sectors.

Work continued in 2007 to incorporate tubes used for oil production in critical conditions into the TUBACEX manufacturing programme. As well as completing the range with a new nickel-based alloy, with improved features for use in especially aggressive media, the production facility required to extend the size range has been designed.

Deployment continued of a programme spanning several years to develop steels with suitable properties to resist oxidation, corrosion and creep at high temperatures, intended for use in power generation facilities.

Moreover, manufacture was completed during the year of a new grade of steel with a high nickel content, intended mainly for the petrochemical and electricity generation industries. The process of obtaining hot-rolled and cold-rolled tube has also commenced.

Finally, a cooperation agreement was signed with the University of Canterbury (New Zealand) which will be in force for the next three years and includes the participation of other industrial companies like Methanex and Schmidt-Clemens Group. Its purpose is the improvement of production processes for alloys with a high nickel content used in energy production, by controlling the microstructure obtained.

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 United States and Japan.

During financial year 2007, with the aim of improving customer service and optimising the Group's production facilities, the scope of the approval certificates as a materials manufacturer were extended, in accordance with the regulations of Lloyd's Register, to include the Ternitz plant, thereby enabling TTI to certify materials produced at the Austrian plant and vice versa.

In the same way, Acerálava obtained certification as manufacturers of duplex and superduplex steel bars 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.

TTI and Acerálava approval to manufacture materials for nuclear applications, in accordance with ASME Codes and Standards, was also renewed for the third time.

On its part, the Tubos Mecánicos subsidiary obtained UNE-EN-ISO 9001:2000 certification for its warehouses in Campo Real (Madrid) and Galicia, which means that all of this subsidiary's facilities now hold this certification.

4.- FINANCIAL ACTIVITY

TUBACEX is in a sound financial position, with its equity, totalling €265.85m, accounting for 44.1% of the company's total liabilities, having registered an increase of 18% during 2007.

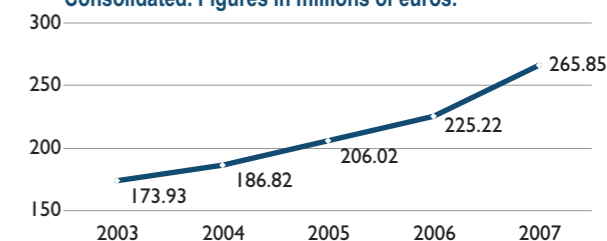
The Group's generation of funds also experienced considerable growth, reaching a gross operating profit (EBITDA) of €106.17m, a figure 65.8% higher than that for the preceding year.

Over the last five financial years, TUBACEX has generated accumulated EBITDA of €286.06m.

Dividend payment

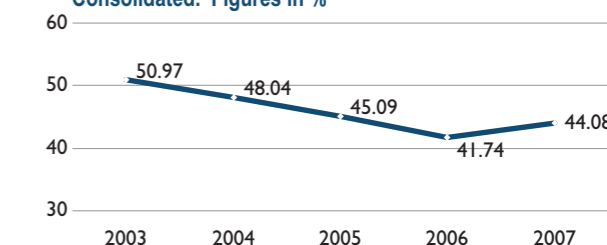
In 2007, applying the agreement adopted at the Annual General Meeting of Shareholders, TUBACEX paid its shareholders a dividend for the amount of €0.0944 gross per share, charged against the 2006 profits. The dividend is up by 21.7% on the one paid out in the previous year, which was €0.0776 gross per share.

Shareholder's equity evolution
Consolidated. Figures in millions of euros.



The amount allocated to dividends during the year amounted to €12.38m, a figure that represents a payout of 40% of the profits for financial year 2006, which totalled €30.95m and is the highest dividend ever paid out in the history of the Company.

Equity to total liabilities
Consolidated. Figures in %



REMUNERATION FOR SHAREHOLDERS EVOLUTION

	2007	2006 (1)	2005	2004	2003
DIVIDEND (in gross euros per share)	0.094	0.078	0.052	0.018	0.043
DIVIDEND YIELD (%)	1.41	1.57	1.44	0.98	3.00
TOTAL AMOUNT OF THE DIVIDEND (in millions of euros)	12.38	10.17	6.76	2.42	5.58
DIVIDEND/ NET PROFIT (Pay-out) (%) (2)	40.0	40.0	50.0 (3)	40.0	34.2

(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.

Since the resumption of shareholder remuneration, TUBACEX has allocated a total of €73.96m to this concept, a figure that tallies with 36.6% of the profits obtained between 1996 and 2006.

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.

***In 2007 a dividend of €0.0944 per share was paid out**

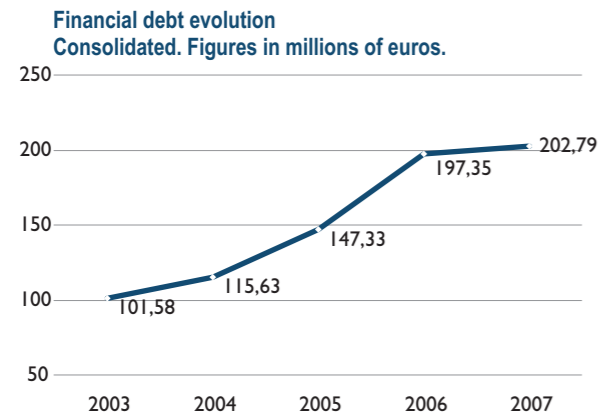
***The Group's consolidated equity accounts for 44.1% of liabilities**

Divestments

Continuing with the Company's policy of divestment in those activities that do not form part of the Group's core business, several assets that belonged to the Company and that were located in a commercial centre in Torrejón de Ardoz (Madrid) were sold. Until the time of their sale, these assets were rented with a purchase option contract.

The sale, to the sitting tenant, generated revenues of €4.31m and a profit of €0.8m.

After this divestment and those carried out in financial years 2001 and 2002, the part of the Group's business not dedicated to its core activity may be considered residual.



5.- HUMAN RESOURCES

In 2007 the average size of the workforce in the companies that make up the TUBACEX Group was 1,909. Of these, 1,206 people are employed at the Group's Spanish plants and 703 are employed in foreign subsidiaries.

The size of the Group's average workforce rose by 138 persons over the year. The workforce increased by 10.3% at the Spanish plants and by 3.7% at the foreign facilities.

Sales per employee rose to €364,972, 19.9% up on the 2006 figure of €304,387.

Training

In 2007 a total of 482 training courses were held in the Group's various companies. The courses were attended by a total of 3,442 people.

In total almost 28,000 hours of training were given, representing an increase of 8% over the total number of training hours for 2006. The number of training hours per employee amounted to 14.7 hours.

By subject matter, quality and environment training represented 27% of the teaching hours given during the year, followed by languages (25%), prevention (14%), management (13%) and computing (7%).

***The average workforce of TUBACEX has risen to 1,909 people**

***The TTI and Acerálava subsidiaries have obtained OHSAS 18001 certificates for occupational health and safety management**



Training provided to workers by TUBACEX, whether inside the company or outside, is subject to a satisfaction survey. The average score for training activities resulting from this survey is 7.6 out of 10, with the following concepts being evaluated: contents, trainer, methodology and means, facilities, organisation and overall appraisal.

During the year TUBACEX allocated €1.06m to training, an increase of 29.3% on the figure for 2006. Over the last five years the company has invested a total of €4m in training for its employees.

Prevention of occupational hazards

Implementation of the Prevention of Occupational Hazards Programme, initiated in 1996 and based on the philosophy of integrated safety, continued at Tubacex Tubos Inoxidables S.A. (TTI) and Acería de Álava S.A. (Acerálava) during 2006.

As a result of the work carried out over all these years, in April 2007 the two subsidiaries were awarded OHSAS 18001 certification for their occupational health and safety management systems, placing them in a leading position among European companies in the continuous improvement of working conditions and prevention of occupational hazards.

With this certification, which is the accepted standard of maximum international recognition for occupational health and safety management, TUBACEX is a pioneer in industry as a whole, since barely one hundred Spanish companies have obtained OHSAS 18001 certification and especially in the steel sector, where only a very small number of companies are certified.

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



6.- STRATEGIC PLAN 2010

Since its approval in 2004, TUBACEX has been implementing its Strategic Plan, whose objective is 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 is obtaining 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 among the aims of the current Strategic Plan include specialised production at each plant, costs reduction, as well as the manufacture of new products, steels and higher value-added applications.

Commercial excellence

From a commercial viewpoint, the Strategic Plan is oriented towards growth in regions and products with the highest 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 (2007), in order to coordinate commercial activity in the Asia-Pacific, Latin American and Middle Eastern areas, respectively, are contributing towards achieving these objectives.

New Strategic Plan up to 2012

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.

To this effect it must be emphasised that the consolidated sales almost tripled between 2003 and 2007, as opposed to a growth forecast in the Plan of 65% (€697m in 2007 compared to €260m in 2003), while EBITDA multiplied fourfold in the same period, as opposed to a growth forecast of 125% (€106m in 2007 compared to €23m in 2003).

In view of this situation, and also the important change experienced in the seamless stainless steel tube production sector since the current Plan was launched, TUBACEX started the design of a new, ambitious Strategic Plan in late 2007, this time with a 2012 time horizon.

Competitiveness Scheme

In 2003 TUBACEX started the implementation of an ambitious Competitiveness Scheme in the biggest 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.

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

***TUBACEX is already preparing a new Strategic Plan, with a 2012 time frame**

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 between 2004 and 2007. Among these projects we can highlight those

aimed to increase steel production volumes, achieve technological improvements in the extrusion press and cold-rolled tube facilities, improve the product mix from Acerálava to SBER, monitor the Llodio and Amurrio plants and to reduce maintenance costs. These actions are set to continue throughout 2008.

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 the year.

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.



SUBSIDIARIES

TUBACEX is an industrial group whose main activity is the manufacture of seamless stainless steel tubes. Founded in 1963, its head office is in Llodio (Álava, Spain) and it has industrial facilities in the same town as well as in Amurrio and Arceniega (also in the province of Álava), Ternitz (Austria) and Greenville (Pennsylvania, U.S.A.).

It also has trading companies in Spain, France, Netherlands, Germany, Czech Republic, Hungary, the United States and Canada, in addition to sales offices staffed by its own personnel in Italy, Poland, China, Brazil and Dubai, and sales representatives in over 30 countries around the world. The Group also operates distribution warehouses in Canada and France.

The TUBACEX Group is structured as a holding company comprising a number of subsidiaries that manufacture and sell the Group's products. It has become the second largest company in the world in its sector, and boasts a market share of 20% in its range of products.

***All TUBACEX subsidiaries posted record sales and profits**

The company is one of only three manufacturers of seamless stainless steel tubes in the world to boast an integrated production process (steel manufacturing, hot extrusion and cold rolling of tubes).

Grupo TUBACEX runs a stainless steel manufacturing plant (Amurrio), two hot tube extrusion plants (Llodio and Ternitz), two cold rolling facilities (Amurrio and Ternitz), a cold drawing factory (Greenville), and a plant manufacturing curved sections and tube fittings (Arceniega). It also manufactures hollow bars at its Llodio and Ternitz plants. All products are made from stainless steel.

In financial year 2007 all the Group subsidiary companies set new all-time records for sales, EBITDA and profits.

ACERÍA DE ÁLAVA S.A.

Acería de Álava (Acerálava) is a subsidiary that manufactures primary-processed stainless steel. Its main purpose is to supply raw materials to Group subsidiaries that manufacture tubes, namely Tubacex Tubos Inoxidables and Schoeller Bleckmann Edelstahlrohr.

The company, which has its production plant in Amurrio, is also active in external markets, and manufactures rolled and forged stainless steel products in billets and round bars for other consumers of this raw material, mainly forging and machining companies.

In 2007 company sales were €422.07m, an increase of 48.5% on the 2006 figure, when it posted sales totalling €284.15m.

Around 79% of Acerálava's sales in 2007 were accounted for by supplies to other Group companies (TTI, SBER and Cotubes), while the remaining 21% of sales were made to external customers.

***Acerálava increased its sales by almost 50%**

Net profit for the year amounted to €6.92m, a figure that represented an increase of 7.6% on the 2006 total of €6.43m. The EBITDA generated rose to €21m, 27.1% up on 2006.

Acerálava has shareholder's equity of €42.46m, accounting for 24.8% of its total liabilities.

