TUBACEX, S.A. AND SUBSIDIARY COMPANIES
2005 DIRECTORS' REPORT (Translation from the original in Spanish)

The worldwide economy continued to grow during 2005, with overall expansion in excess of 4%, and was characterised in macroeconomic terms by significant increases in oil prices, negotiations for the liberalisation of business on a global scale and the consolidation of China as the world's fourth power in terms of gross domestic product (GDP) and with an ever-increasing export capacity.

The United States economy has shown growth of approximately 3.5%, seven tenths lower than in 2004, and record levels of trade deficit. Growth in the Eurozone has slowed to 1.4%, compared to 2% in the prior year, with inflation slightly above 2%. The Eurozone has not recovered from weakness and has reflected the mixed effects of political failures such as the European constitution, political changes in Germany, tight budgetary adjustments for the period 2007-2013 and expectations of improvements in GDP in the short to mid-term accompanied by inflationary tension.

Growth in China continued to be very strong at nearly 10%, making it the world's fourth largest economy in terms of GDP after the United States, Japan and Germany.

This overall situation of improvement has had a positive effect on the Group's business through increased demand for our products. On the other hand, there have been a number of highly relevant matters in 2005 that directly affect European export companies and which have threatened the competitiveness of the iron and steel sector in general, including continued rises in raw material prices and the depreciation of the US Dollar against the Euro. Special mention should be made of the considerable rise in the price of oil. Although this acts as a catalyst to investment programmes in sectors highly relevant to the end use of our products, it also entails a significant element of uncertainty concerning the sustainability of worldwide growth.

As regards financial markets, the American Federal Reserve has continued to increase interest rates, going from 1% in June 2004 to 4.25% at the end of 2005. After two and a half years with interest rates at 2%, the European Central Bank gave the first sign of an upward trend with an increase of 25 basic points on 1 December to bring its official rate to 2.25%, with clear messages of further hikes in 2006.As in 2004, the currency markets had a serious negative effect on European export companies during 2005 with a Euro that has maintained its strength against the US Dollar (US$1.24 on average in 2005) and has risen by more than 2% against the Yen (added to 2% in 2004 and 10% in 2003). This trend has been, and continues to be, particularly harmful to the competitiveness of European companies, as it directly jeopardises exports to the USA and indirectly favours emerging economies in Asia and Eastern Europe, which have much lower labour costs and currencies that have not lost ground to the US Dollar. The decision taken in August to allow the restricted fluctuation of the Chinese Yuan is considered insufficient to resolve the problem of low-cost Chinese exports. Nevertheless, the aforementioned strength of foreign demand has mitigated these negative currency effects.

The stock markets performed very well and closed the year with important gains which, in the case of the Spanish stock market, stood at 18.2% in the IBEX35 and 20.3% in the IGBM. This is the third consecutive year of positive performance in the Spanish exchanges.

The evolution of the prices of the basic raw materials used in our business (nickel and stainless steel scrap) should also be noted, with an average price increase of 6.7% in 2005 added to rises of 44% and 42% in 2004 and 2003, respectively. All of these figures refer to average nickel quotations on the London Metal Exchange (LME). The price of molybdenum has continued to be an important factor, with a rise in prices of approximately 97% during 2005. Various factors such as the strength of worldwide demand and the increasingly strong Chinese presence in global stainless steel production are behind this increase in prices. However, it should not be forgotten that these markets have been and are exposed to international hedge funds – currently extremely active in the main raw materials markets – and the value of the US Dollar. The overall effect of these price rises in basic raw materials on rates of inflation is a factor that should be borne very much in mind.

The higher prices of the main raw materials in 2005 have had a major effect on the cost of materials consumed, but have been passed on to the end customer due to the healthy levels of demand, particularly in the projects market.

Oil prices rose in 2005 as a result of factors such as the volatile situation in the Middle East, the weakness of the US Dollar, supply restrictions imposed by the OPEC, heightened tensions in oil-producing countries and, above all, increased demand (particularly in China and India). Nevertheless, the International Energy Agency (IEA) has issued repeated warnings of structural problems in matching supply to forecast demand and the need for significant investments at all stages of the production and processing of oil and by-products. To offset the considerable rise in the price of crude oil and its effect on the market (oil prices have risen by an average of 45% to bring the price of the Brent barrel to almost US$60 at the end of 2005), OPEC has been forced to increase output and the IEA to free up emergency crude reserves.

In terms of sectors, key end users of our products such as producers of electrical energy, oil and gas and the chemical and petrochemical industries have notably raised production compared to the prior year. In this regard, 2005 has been characterised, on the one hand, by high demand from these sectors, which has made it possible to substantially increase margins due to the high added value of the products and, on the other, by the downturn in the distribution market, particularly in Europe. The two main reasons for this weakened performance of the distribution market, which has hindered efforts to stimulate demand on a larger scale, are the precarious nature of the currency markets and the major price hikes and persistent instability affecting raw material prices.

The Tubacex Group, a net exporter with US$ sales of approximately 20%-25%, obtained operating profit, net profit and cash flow in 2005 that were up 47.7%, 65.3% and 34.8% on the prior year, respectively, together with a 23.9% rise in total sales. These figures reflect external factors such as the positive economic performance throughout the year and the resulting increase in demand for our products, as well as key internal factors such as the implementation of the Competitiveness Plan in the Group's main production units, which has allowed us to take decisive action on our cost base and put into practice trade, industrial and organisational measures directly related to the implementation of the Tubacex 2010 Strategic Plan.

Section 1 of this report – Performance of the Group's business in 2005 – provides a detailed description of the key factors of the 2005 results and outlines the stability of the European market, principally in terms of distribution, the substantial improvement in the United States in terms of prices and margins, and the equally important improvement shown in the Asian market, which is closely linked to the dynamics of the economy in this part of the world, particularly in China, India and the Middle East.

Furthermore, Section 4 of this report – Outlook for the Group's business – refers to two key aspects of the development of the Group in 2005 having a decisive impact over the years to come: the implementation of the Competitiveness Plan, through which important steps were carried out in 2005 that have improved, and will continue to improve, costs and group productivity; and the development of the Tubacex 2010 Strategic Plan, aimed at responding to the prospects of global demand for tubes through a new commercial structure continually in search of excellence and the development of a specialised, flexible and innovative industrial organisation. These aims are fully compatible with developing our potential in terms of production capacity and unit cost reduction as set out in the Competitiveness Plan.

As a key starting point on the road to achieving the aforementioned goals, reference must once again be made to the high level of integration of the different group units. This combination of efforts and people has made it possible for the Group to attain a global market share of 22% in our range of products. In this regard, our efforts in the coming years will continue to focus mainly on projects aimed at maximising profitability and competitiveness in all the units of a fully integrated and consolidated industrial group based on financial and equity soundness. This will enable us to undertake ambitious projects directed towards enhancing internal efficiency at our plants and external growth opportunities that may be of interest with regard to improving the Group's profitability.

As in previous years, the Tubacex Group has continued working to fulfil its main strategic objectives, the most significant distinguishing features of which are those which serve as a basis for our current management model:

- Creation of value and shareholder remuneration.
- Maximisation of structural profitability in all business units, with special emphasis on production units of seamless stainless steel tubes.
- Competitiveness in the manufacturing and marketing of our products.
- Clear commitment to added value in our products and leadership in customer service.
- Integration and development of synergies between the different units, always from a strategic group perspective, and on the basis of planning and a realistic adaptation of people, structures, processes and investment plans. Adaptation of the Group's management structure.
- Financial soundness and generation of cash flow as a guarantee of consistent shareholder remuneration over time and sufficient capacity to undertake the required investments to ensure the future competitiveness and profitability of the Group.
- Continuous improvement in corporate governance policies, including the most advanced principles based on international standards.
- Establishment of the principle of corporate social accountability as one of the Group's main values with a focus on total quality management and environmental policies in all the Group's units.

1. PERFORMANCE OF THE GROUP'S BUSINESS

In order to carry out a detailed study of the evolution of the main business variables during 2005, we will analyse the variations in the main entries of the consolidated income statement together with the most significant events deriving from the Group's financial, commercial and industrial activity.

1.1 Analytical analysis of the Group's income statement
1.2 Financial activity
1.3 Commercial activity
1.4 Industrial activity
1.5 Competitiveness Plan
1.6 Strategic Plan

1.1. *Analytical analysis of the Group's income statement*

For comparative purposes, the main captions of the consolidated statements of profit and loss for 2005, 2004 and 2003 are as follows. All economic data relating to 2004 and 2005 have been adapted to International Financial Reporting Standards (IFRS).

			(in millions of Euros)			
	2005	%	2004	%	2003	%
Revenue	*430.50*	*100.00*	*347.45*	*100.00*	*258.92*	*100.00*
Other income	*4.13*	*0.96*	*1.63*	*0.47*	*1.67*	*0.64*
Variation in stocks	*28.89*	*6.71*	*17.72*	*5.10*	*9.18*	*3.55*
Total operating income	***463.52***	***107.67***	***366.80***	***105.57***	***269.77***	***104.19***
Purchases and materials consumed	*-264.60*	*-61.46*	*-198.74*	*-57.20*	*-129.05*	*-49.84*
Personnel expenses	*-82.55*	*-19.18*	*-70.73*	*-20.36*	*-69.41*	*-26.81*
External and operating expenses	*-63.72*	*-14.80*	*-57.19*	*-16.46*	*-48.24*	*-18.63*
Gross operating profit	***52.65***	***12.23***	***40.14***	***11.55***	***23.07***	***8.91***
Amortisation, depreciation and impairment losses	*-15.64*	*-3.63*	*-15.08*	*-4.34*	*-11.70*	*-4.52*
Net operating profit	***37.01***	***8.60***	***25.06***	***7.21***	***11.37***	***4.39***
Amortisation of goodwill on consolidation	-	-	-	-	*-1.17*	*-0.45*
Financial income	*6.61*	*1.54*	*3.71*	*1.07*	*5.47*	*2.11*
Financial expenses	*-10.37*	*-2.41*	*-8.79*	*-2.53*	*-8.63*	*-3.33*
Profit on ordinary activities	***33.25***	***7.72***	***19.98***	***5.75***	***7.04***	***2.72***
Net extraordinary income/(expense)	-	-	-	-	*-0.37*	*-0.14*
Consolidated profit before income tax	***33.25***	***7.72***	***19.98***	***5.75***	***6.67***	***2.58***
Income tax	*-7.83*	*-1.82*	*-4.60*	*-1.32*	*-0.62*	*-0.24*
Net profit attributed to the parent company	***25.42***	***5.90***	***15.38***	***4.43***	***6.05***	***2.34***

The most significant trends in the consolidated income statement are as follows:

- Sales are up by 23.9% on the prior year. It is important to note that the volume of tons sold is very similar to 2004 and that the rise in sales is a result of the increase in sales prices in response to strong final demand and higher raw material prices. Evolution by geographical area is shown in section 1.3.

- As in the prior year, the continued decline in value of the US Dollar against the Euro is a highly significant factor which has negatively affected sales. The drop in value of group sales made in US Dollars has been mitigated by the increase in prices in local currency, which has largely offset this effect.

- The cost of materials consumed, which rose from 57.2% in the prior year to 61.5% this year, is a clear reflection of the sharp increase in the price of raw materials – almost 6.7% in the case of nickel, which brings it to its highest ever level following rises of 44%, 42% and 14% in 2004, 2003 and 2002, respectively, and 97% for molybdenum – and the growth in group activity, principally in production.

- The above mentioned factors, coupled with a major enhanced competitiveness and cost-cutting programme, are the determining factors behind the rise in the Group's net profit for 2005.

- Personnel expenses have risen by 16.7%. It should be noted that this includes a provision of approximately Euros 5 million to cover expected future liabilities deriving from an agreement to implement relief contracts during the period 2006-2008 in Tubacex S.A., Tubacex Tubos Inoxidables, S.A. and Acería de Alava, S.A. This agreement is complementary to that signed for the period 2003-2005 and will allow the Group to improve competitiveness and profitability, streamline its workforce, enhance production structures and renew, train and improve the skills of its personnel.

- The 11.4% rise in other operating expenses is evidence of the increase in group activity and cost curbing policies applied throughout the year, which will continue to be implemented in specific projects such as the Competitiveness Plan in the coming years.

- The Euros 1.3 million (26.0%) reduction in net financial income in 2005, coupled with the drop recorded in 2004 (11.4%), is a result of the gradual decline in the Group's financial debt (see section 1.2 of this report), which is common to the majority of business units. However, the higher current asset financing requirements due to the rise in raw material prices and group production levels have resulted in more short-term credit facilities, thus preventing the reduction in financial expenses from being even more pronounced.

- No significant extraordinary profit or losses have been recorded in 2005 or 2004 and the application of International Financial Reporting Standards has practically eliminated this item.

- Income taxes remain in line with 2004, given that in prior years tax credits were also capitalised in accordance with prevailing legislation.

1.2 *Financial activity*

The Group generated its highest ever level of funds of Euros 41.1 million in 2005, an increase of 34.8% compared to the Euros 30.5 million generated in the prior year, thus confirming the Group's current capacity to generate cash flow.

The Group's shareholders' equity exceeded Euros 200 million (Euros 206.02 million) for the first time, representing 45.1% of total liabilities (48.0% in 2004). This high level of capitalisation, with a net debt to shareholders' equity ratio of 61.2%, significantly exceeds the average of the main companies in the iron and steel sector, which generally tend to have higher debt ratios.

It should be noted that of the total amount of financing available from financial entities at the end of 2005, only 8% relates to long-term debt (13% in 2004), with the remainder being used for financing companies' day-to-day operations and repayable in the short term. As commented earlier, had the rise in raw material prices and the considerable jump in production levels not occurred, the Group's net debt in comparative terms would have fallen substantially.

An analysis of the Group's working capital shows a figure of Euros 96.3 million for 2005, which is an increase of almost Euros 24 million on the prior year's amount of Euros 72.4 million. This reflects the solidity of the Group and enhances its capacity to self-finance investments plans, including those set out in the Competitiveness and Strategic Plans.

As part of the analysis of financial activity for 2005, it is important to note the risk management policies currently in place to mitigate the Group's exposure to the principal risks associated with its line of activity, the most significant of which are the following:

- Mapping of top-level risks and controls for subsequent dynamic analysis by the Group's governing bodies.
- Hedging of credit risk through insurance policies.
- Exchange rate hedging by means of exchange rate agreements.
- Hedging of interest rate risk using IRS (interest rate swaps).
- Hedging of raw material volatility through supply contracts guaranteeing sales at fixed prices.

These activities aimed at hedging the Group's principal transactions are materialised through the following basic risk control objectives:

- Conservative policies that only seek to hedge industrial and commercial margins.
- Dynamic tools designed to analyse cash flows, exposure to credit risk and the impact of fluctuations on raw material prices.
- Independent advice on the design of financial hedging strategies.
- Contracting of financial operations in established, liquid

markets with financial entities of renowned prestige and solvency.
- Proactive management on the part of sales, purchases and financial managers aimed at minimising risks, always in accordance with prudent policies.
- Independence in the fields of financial, commercial and purchasing management.
- Levels of authority defined in accordance with the type of operation.
- Compliance with the hedging policies defined by the Audit Committee.

The value of the Group on the stock exchange rose by 89.4% in 2005. Shares increased from Euros 1.89 per share at the close of 2004 to Euros 3.58 at the close of the year. This is the fifth consecutive year of share price increases, with values climbing from Euros 1.10 per share at the end of 2000 to the current price of Euros 3.58 (+225%). The maximum price quoted during the year was in September, when shares reached a high of Euros 3.90, whereas the minimum price of Euros 1.91 per share was quoted on 3 January.

A total of 202.33 million shares were traded on the stock exchange during the year, which is 109.1% higher than the 96.76 million traded in 2004.

This figure signifies a rotation of 152% of the total number of the Company's shares, which comes to 132.98 million. Effective trading for the year amounted to Euros 593.62 million, 264% higher than the prior year when the value of shares traded reached Euros 163.06 million. The Company's market capitalisation at 31 December 2005 amounted to Euros 476.06 million, an 89.4% increase on the prior year-end figure of Euros 251.33 million.

On 1 July 2005 the Spanish Stock Exchanges, integrated within the BME Group, launched two new investable indices, IBEX MEDIUM CAP and IBEX SMALL CAP, which will track the performance of small and medium capitalisation companies. Tubacex was initially listed on the IBEX SMALL CAP index, which increased in value by 15.5% to the end of 2005. Subsequent to a review of the indices carried out on 15 December 2005 by the Technical Assessment Committee of the IBEX indices, Tubacex was changed to the IBEX MEDIUM CAP index as a result of its favourable stock performance during the year. This change took effect in the first session of 2006. Tubacex will therefore form part of the 55 most capitalised stocks in order of percentage of floating capital on the Spanish Stock Exchange.

1.3. *Commercial activity*

Consolidated group sales reached Euros 430.50 million in 2005, a rise of 23.9% compared to the prior year. The effects of volume and price on this variation are discussed in section 1.1 above. However, in order to take into account the geographical aspect of business performance for the year as commented previously, details of group sales by geographical market for the last three years are as follows:

	(In millions of euros) 2005	2004	2003	2005/2004
Europe	283.26	236.59	178.33	+19.7%
USA	85.67	65.26	42.19	+31.3%
Other countries	61.57	45.60	38.40	+35.0%
Total sales	430.50	347.45	258.92	+23.9%

With regard to the above figures, 66% of total sales in 2005 relate to the European market, 20% to the USA and 14% to other countries. In 2004 this distribution was 68%, 19% and 13%, respectively. The most significant factors behind this evolution are as follows:

The North American market regained ground in 2005 through improved levels of demand that made it possible to minimise the weakness of the US Dollar. This positive evolution in demand resulted in turnover of Euros 85.67 million, which is 31.3% up on 2004. This growth is a result of the rise in exports to this market and, to a significant extent, the 24.7% increase in sales made by Salem Tube Inc., which has attained its highest profitability and turnover figures since it was integrated into the Tubacex Group in 1995.

In 2005 the European market grew by 19.7% as a result of the economic recovery in the European Union as a whole. Although growth did not match that of the American market, European sales still accounted for more than 65% of the total, thus confirming the Group's solid commercial positioning in this market.

The consolidation of net sales to the rest of the world is directly attributable to the high rates of growth in Asia and the Group's commercial efforts to expand its presence in new markets, which resulted in a commercial branch being opened in Shanghai at the end of 2004. This drive to gain a foothold in the principal Asian countries, particularly China, will be a constant feature over the coming years.

1.4. *Industrial activity*

During 2005 the Tubacex Group continued the strategy initiated in prior years of maintaining a strict policy of prudent investment based on in-depth analyses and always in terms of expected return on proposed investments (payback in under four years). As a result of the application of these criteria, investments in plant, machinery, other installations and equipment in 2005 amounted to approximately Euros 12.0 million compared to the Euros 9.92 million invested in 2004. This increase is largely due to the implementation of the Competitiveness Plan described in section 1.5 of this report.

The most significant investments carried out during the year were those considered to be strategic and directly related to the Competitiveness Plan. These investments were focused on Tubacex Tubos Inoxidables, S.A., SBER AG – European business units involved in the production of seamless stainless steel tubes – and in Acería de Alava, S.A., and amounted to approximately Euros 3 million. The main activities carried out during the year, some of which will continue in 2006, relate to increasing the productivity of

extrusion presses, the incorporation of a new straightening line for large-diameter tubes and improving production in finishing lines.

These investments are ensuring improved productivity and capacity in the Group's key plants without significant increases in personnel or fixed costs through a limited volume of investments. The continual drive to cut costs and increase capacity and productivity means that our plants are among the most competitive of their kind in the world.

Also of note are investments totalling almost Euros 3 million in the Alava steelworks. The main investment in this plant relates to the installation of a new emissions filter that duplicates the former capacity, thereby adapting the plant to the strictest environmental requirements. Other lesser investments include the installation of a new system designed to activate and control electrodes and thereby enhance the reliability and effectiveness of the electric furnace, improvements to the capacity of the forging process for the production of heavy components, and the duplication of cutting capacity in the rounding process with a view to catering for the increase in production resulting from the application of the Competitiveness Plan.

Of the almost Euros 6 million in investments remaining, in line with the amounts invested in 2004, a special mention should be given to those aimed at improving the efficiency of the key installations of the Group's different industrial plants through the renovation and maintenance of equipment, tried and tested procedures for preventive installation maintenance, continuous improvement and reengineering of production processes, improvements in the quality and added value of our products and strict compliance with environmental legislation.

New investments of approximately Euros 14 million are forecast for 2006, in addition to those pending from prior years, which will practically bring to a close the investment plans initially set out in the Competitiveness Plan. As there are currently no further plans for expansion, forecast investments for the coming years, totalling approximately 8 million, should only include those related to maintenance.

This policy of continually improving the Group's competitive position while always adhering to prudent investment criteria, together with the gradual reduction of financial debt, should be taken into consideration in any analysis of the Group's financial solvency and equity soundness.

From an industrial standpoint, the Group endeavours to search for solutions to the needs and problems of its customers, principally warehouses and engineers. It should be borne in mind that the sectors at which our products are aimed are constantly evolving, therefore requiring constant updating of our quality control, research and investment policies.

The average personnel headcount of the Tubacex Group in 2005 was 1,628, an average increase of 111 on the prior year.

1.5. *Competitiveness Plan*

A highly ambitious plan was drawn up in mid 2003 for the Group's main production units – Tubacex Tubos Inoxidables, S.A., SBER AG and Acería de Alava, S.A. – with a view to improving operating margins and achieving a competitive edge in terms of productivity and costs. The initial phase consisted of identifying those areas requiring improvement, which was then followed by the launch of a series of projects over the last two years.

The implementation of some of these projects is the reason why investments are higher than normal, and this situation is set to continue in 2006. Nevertheless, the improvement in profit for 2005 is largely attributable to the implementation of this plan.

The main projects carried out during 2005, and which are still under development, are as follows:

- Improvement in press productivity
- Increased production in Acerálava
- Increased cold laminate production
- Improvements to the supply mix from Acerálava to SBER
- Reduction of maintenance costs

1.6. *Strategic Plan*

The Tubacex 2010 Strategic Plan launched at the end of 2004, which aims to convert the Tubacex Group into the world's leading producer of its kind, is showing good progress, helped in part by the previously mentioned positive evolution in demand. The bases of this plan and the steps taken to achieve its objectives are the following:

- Increase group profitability and volume of core business sales (seamless stainless steel tubes).

  The positive evolution of demand has made it possible to increase prices and margins for almost all products and achieve considerable improvements in the product mix. This has led to levels of sales and operating results that position the Group close to its goals for 2010. However, sales volumes have not increased on an even scale mainly for two reasons:

  - Orientation towards the projects market with a more specialised product mix, which limits the production capacity of our plants;
  - The industrial improvements included in the Plan have been partially achieved during the year, but will continue in the coming years, thereby ensuring an increase in overall group production capacity.

- Maintain the Group's current competitive position in the European market in terms of market share and profitability.

  As mentioned in section 1.3 – Commercial activity – the Group has maintained its competitive position in the European market, improving on profitability with respect to the prior year. Prices were raised at the beginning of the year with a view to passing raw material price hikes on to the end customer.

- Increase the Group's presence in the most rapidly expanding markets in our sector, namely North America and Asia.

  Evolution in these markets has differed. Whereas in Asia the volume of tons sold has increased by almost 5%, partly as a result of opening a commercial office in Shanghai and with only limited improvement in margins, the volume of sales in North America has fallen, but enhanced margins have largely offset this effect.

- Improve the Group's production possibilities through an optimum, specialised industrial structure linked to production targets and unit costs, without relying on significant investments.

  Investments made in 2005, which are described in section 1.4, amounted to Euros 12 million and mainly relate to the adaptation of installations to produce a product mix of higher added value and gradually increase the Group's overall production capacity.

- A sound management and organisational structure based on objectives and action plans by geographical area. Organisation geared towards obtaining results.

  The management teams of Austria and Spain have been fully integrated to centralise production and commercial management of all business units manufacturing and marketing seamless stainless steel tubes.

- Broaden our product portfolio in areas of activity with higher added value and in which we are not yet present.

  Production of a new type of product commenced during the year aimed at the oil industry – Oil Country Tubular Goods (OCTG). The Group hopes to improve its competitive position in this area in the coming years, as well as commencing production of umbilical tubes.

- Commercial excellence and customer service.

  A customer loyalty policy has been followed throughout the year and close contact has been maintained with customers.

2. GROUP SITUATION

The positive evolution of the Group is a reflection of the significant improvement in demand during the year, particularly in the gas, chemical, petrochemical and energy sectors, with more modest levels of demand in the area of distribution. We would also like to highlight the successful implementation of the industrial and commercial projects described previously, reflecting the Group's resolve in tackling increasingly difficult challenges, which it assumes with composure and flexibility.

The Tubacex Group is adequately structured in all areas of activity, i.e. strategic, industrial, commercial, economic, financial and social. At present, the Group is focusing its efforts towards developing the Tubacex 2010 Strategic Plan, which is aimed at ensuring future growth and profitability. We relentlessly strive to achieve excellence when dealing with our customers and suppliers, to ensure that all Group employees identify with a set of common values and goals, and to continually pursue ways to create value for our shareholders.

3. SIGNIFICANT SUBSEQUENT EVENTS

No significant subsequent events have occurred which require special mention.

4. OUTLOOK FOR THE GROUP'S BUSINESS

Having carried out an evaluation of 2005, we will now proceed to briefly evaluate what we consider could be the main trends of economic activity for 2006 and subsequent years:

Once again the worldwide economic climate is encouraging, with continued growth forecast for 2006 despite the prevailing restrictions in the oil market, concerns over further rises in fuel prices and the possibility of interest rate hikes.

The US economy is expected to grow by more than 3% in 2006 on the back of consumer spending and investment, further favoured by the positive evolution of corporate profits and employment. Nevertheless, there are risks such as the high price of oil and its impact on inflation, which slowed slightly towards the end of 2005, a possible shift in the real estate market caused by a probable increase in interest rates and, of course, the exorbitant external deficit in excess of 6% of GDP.

As far as Europe is concerned, growth of around 2% is forecast, thanks mainly to a recovery in the German economy, which is showing signs of improvement in terms of activity, consumer confidence and employment. Inflation is expected to remain moderate, although there are risks such as the price of energy, particularly that of oil, which in the past has been mitigated by the strength of the Euro.

Growth in Eastern and Southern Asia is expected to slow down somewhat, although it will remain vigorous, particularly so in China and India, which will play an increasingly predominant role in the global economy. A point of interest to be followed is the Chinese government's desire to moderate its growth to 7.5%, after growth in excess of 10% in recent years has taken this economy to fourth place in the global ranking, behind the United States, Japan and Germany and ahead of the United Kingdom and France.

The US Dollar, the Euro and the Yuan will once again figure strongly in the currencies market in 2006. Despite the introduction of higher interest rates by the American Federal Reserve, the US Dollar is still heavily depreciated. This has a negative knock-on effect on the Euro, as it acts as an alternative currency and its strength could be detrimental to exports, one of the main driving forces behind the European economy. Furthermore, since China's withdrawal from the fixed exchange rate against the US Dollar, the evolution of the Yuan should be followed closely.

As regards interest rates, the European Central Bank may continue to progressively increase interest rates, a trend it started at the beginning of 2006, to around 3% at the end of the year. The American Federal Reserve, which at the beginning of 2006 raised rates for the fourteenth consecutive time since June 2004, bringing interest rates to 4.50%, would appear to have little room for further upward movement.

During the initial months of 2006, oil prices have topped US$60 a barrel due to the combination of factors described earlier. The tight margin of unused production capacity means prices are extremely sensitive to unexpected changes in the balance between supply and demand, thus making it difficult to reduce and stabilise prices.

The cost of other raw materials – nickel, stainless steel scrap, chrome and molybdenum – is expected to remain high for most of the year, although instability will continue to be the key factor in this market throughout 2006. Increasing demand and the speculative factors described previously will continue to contribute to this situation.

Generally speaking, the iron and steel sector will not be immune to these overall growth trends, and in this regard, the influence of Chinese economic development will be a decisive factor in both production and the evolution of the raw material markets as it becomes the world's largest producer and consumer of steel. Three points to follow closely will be the aforementioned control on growth exercised by the Chinese government, the probable closure of part of its steel production capacity concentrated in small manufactures as a result of the application of new environmental regulations, and the possible appearance of mergers to create more powerful groups and thereby hinder the introduction of foreign capital.

The healthy evolution of the seamless stainless steel tube sector during the year is expected to continue in 2006. In line with the general trends described, highest growth will continue to be seen in Asia and North America, with more moderate expansion in Europe and Japan. It is against this background that the main objectives of the Group's 2010 Strategic Plan, as described in the previous section, will be structured with a view to improving the competitiveness and profitability of the main business units.

Key aspects crucial to the development of action plans for 2006 and thereafter which we consider to be important strengths for the Group include the following:

- Development of and compliance with the Policies of Corporate Governance and Social Accountability.
- Stable policy of shareholder remuneration through dividends, in the range of 30-40% of net consolidated profit for the year, which on occasion could vary.
- Continual improvements in productivity, competitiveness and production efficiency through specific investments that will enable the Group to reach a significant presence in products of high added value.
- Solid equity structure. Constant reduction in the Group's long-term financial borrowing.
- Maximum quality products and processes that respect the environment (ISO 9000 and ISO 14000).
- Excellence in customer service.

We understand this series of strategic objectives and our dedication to productive and commercial excellence to be the best way to increase value for our shareholders.

5. RESEARCH AND DEVELOPMENT ACTIVITIES

In view of the range of products on which the Tubacex Group focuses its activities, there are permanent policies in place to promote R&D activities.

In 2005 the Group continued with its policy of investing in projects dedicated to improving its manufacturing processes through higher quality, cost cutting, environmental improvements, consolidation of production processes through systematisation and the defining of values, thereby improving performance and minimising rejections.

The most relevant projects carried out were as follows:

- Duplex steels: 2005 saw the conclusion of the industrial tests and studies necessary to accurately define, both in the hot and cold manufacturing plants, the processes to obtain the mechanical characteristics required to use ferritic-austenitic duplex steels.

  This has enabled the Group to obtain important orders for these products in 2005.

- OCTG project: the significant rise in the worldwide consumption of oil, coupled with rising prices in recent years, have paved the way for deeper drilling of oil reserves, the environmental conditions of which are much more hostile.

  Under these conditions, traditional materials are not sufficiently resistant and more suitable types of steel or alloys are required.

  The research activity of T.T.I. Tubacex Tubos Inoxidables, S.A. in 2005 was dedicated to the development of tubing resistant to corrosion (Corrosion Resistant Alloy) for use in the oil industry (Oil Country Tubular Goods).

  This research was carried out using the materials that are currently most widely used when operating conditions, particularly the presence of hydrogen sulphide (H2S) and anhydrous carbon dioxide (CO2), require the use of alloys that are highly resistant to corrosion.

  The research which commenced midway through 2004 has also required serious dedication in 2005, and many contracts for tubes have been signed during the year.

- Nickel-based alloys: for even more demanding conditions, nickel-based austenitic alloys are used, which make it more difficult to obtain the required mechanical characteristics.

  This has made it possible to contract some tons of this grade of alloy at the end of 2005, supply of which will commence at the beginning of 2006.

The Group has continued to participate in the cooperation programme with CEIT (Guipúzcoa Centre for Technical Studies and Research).

This two-year programme is aimed at improving the thermal treatments of T.T.I. and Acerálava products, and will improve both companies' capacity to satisfactorily process an increased volume of material.

The projects described above are examples of the philosophy of improving the performance of our products and steels which are being incorporated into new manufacturing programmes, thus enabling us to maintain our ever increasing level of competitiveness and our leading-edge position as suppliers of products of higher added value in our market niche.

6. ENVIRONMENTAL ACTIVITIES

As part of the plan for the implementation of its Environmental Management System, Acería de Alava, S.A., a subsidiary of the Tubacex Group engaged in the manufacture of stainless steel at the initial processing stage, renewed the ISO 14001 environmental management certification issued by AENOR for all the activity carried out at its plants. This certification was first awarded to the company in 2002.

The Company has continued to carry out activities under the voluntary agreement signed in 2003 with the local government's Ministry of the Environment concerning the improvement of the environment in the sector. This voluntary agreement for the surface treatment sector affects two TTI centres (Amurrio and Llodio, Spain) which carry out tube pickling work.

This agreement, based on the strategic principle of commitment towards sustainable development, endeavours to make manufacturing activities compatible with respecting the environment and improving peoples' quality of life.

The agreement is a new challenge within the context of the demanding European Union legislation governing environmental activities. Acería de Alava, S.A. undertook to take early action and comply with the forthcoming legislation within three years, cooperating with the local government and implementing appropriate monitoring tools.

In relation to this plan, Acería de Alava, S.A. has installed a new emissions filter which, in conjunction with the existing filter, will duplicate the extraction and filtering of fumes, thereby reducing emissions and improving air quality. This project, the cost of which came to approximately Euros 3 million, was carried out in 2004 and 2005 and complements the significant efforts carried out in 2003 and prior years in all the plant's activity through actions, projects and investments for the control of raw materials, storage of products, controls of smoke emissions and air quality, water treatment, management and recycling of inert waste, and control and transport of finished products.

Both TTI (2001) and Acería de Alava (2002) have implemented the Environmental Management System. This process has been validated by AENOR (Spanish Association of Normalisation and Certification) and has been awarded the environmental management certification in accordance with the requirements of ISO 14001 for all of the activities carried out at the related plants. Therefore, the whole of the production process carried out at the Tubacex Group's Llodio and Amurrio plants, from the receipt of raw materials and the manufacture of stainless steel at Acería de Alava to the shipment of tubes produced at Tubacex Tubos Inoxidables (TTI), has obtained environmental management certification from an official organisation.

The Austrian subsidiary Schoeller-Bleckmann Edelstahlrohr has also been awarded the ISO 14001 certification for the production and sale of tubes at its installations in Ternitz (Austria).

We believe these recognitions to be a reflection of an effective, modern policy of quality management and protection of the environment applicable in all of the Group's production units.

When the Kyoto protocol came into effect in February 2005, Spain, as one of the signatories, distributed CO_2 emission rights for the period 2005-2007 through the Ministry of the Environment's General Secretariat for the Prevention of Pollution and Climatic Change. The only Tubacex Group unit which was assigned emission rights, given the negligible emissions of the remaining plants, was Acería de Alava.

As one of its priority strategies, Tubacex has undertaken to carry out environmental activities and, to this end, its policy is to establish at all the Group's business units a system to minimise the environmental impact caused by its industrial activity through the use of economically viable clean technologies and implementation of the measures necessary to prevent pollution in all operating situations, including emergencies.

Environmental management activities are systemised and included within the Group's Report on Corporate Social Accountability.

7. STATUTORY ACTIVITY

The Report on Corporate Social Accountability details general policies and specific activities carried out by the Tubacex Group in 2005 in relation to key stakeholders such as: the Company as a whole, the environment, employees and their representatives, shareholders, analysts and investors, the media, suppliers and contractors.

8. ACQUISITION OF OWN SHARES

No own shares have been acquired or sold during the year.

9. PROPOSED DISTRIBUTION OF PROFIT

The board of directors of Tubacex, S.A. will propose to the shareholders at their annual general meeting that the profit for the year be distributed as follows:

	Thousands of Euros
Legal reserve	1,286
Voluntary reserves	1,409
Dividend	10,166
Total	**12,861**

The dividend is maintained as the form of shareholder remuneration, and in this regard the Group will distribute 40% of net consolidated profit for 2005. This dividend will be the highest paid out to shareholders since this remuneration policy was agreed in 1996.

10. OTHER

10.1. Audit fees

The audit fees for the professional services performed at the Spanish Tubacex Group companies in 2005 amounted to Euros 135 thousand. In accordance with the principles regarding the independence of auditors included in the report on compliance with the recommendations of the Company's Board of Directors' Code of Corporate Governance, the auditor did not receive any remuneration from TUBACEX for any items other than its audit work.