

## TUBACEX, S.A. AND SUBSIDIARY COMPANIES 2007 DIRECTORS' REPORT

(Translation from the original in Spanish)

The worldwide economy continued to grow at a healthy rate in 2007, although not quite to the same extent as in 2006. According to data published by the International Monetary Fund, the global economy grew at a rate of 4.9% in 2007 compared to 5% in 2006.

The main reason for this slight downturn has been the slowdown in growth in the US economy, where GDP fell from 2.9% in 2006 to 2.2% in 2007, due directly to the slump in the American housing market and the credit crunch for both companies and individuals in the US, and developing countries in general.

Emerging economies have continued to display the strong drive of recent years with developing countries recording annual growth of 7.4%, and China and India once again at the forefront.

The health of the global economy and its influence on investment in the oil, energy and petrochemical sectors has had a very positive effect on the Group's businesses. Accordingly, 2007 once again saw a renewed surge in demand and further orders for both tubes and stainless steel products manufactured by the steelworks. Nevertheless, a number of highly relevant issues directly affect European export companies and continue to threaten the competitiveness of the iron and steel sector in general, such as the continuous rise and heightened volatility of raw material prices and the depreciation of the US Dollar against the Euro. Of particular concern is the substantial jump in the price of oil. Although this acts as a catalyst for investment programmes in sectors which are end users of our products, it also creates considerable uncertainty over the sustainability of worldwide growth.

As regards the financial markets, two clearly different periods can be identified in the American Federal Reserve's monetary policy. The first lasted until August and was characterised by maintaining interest rates at 5.25%, the rate prevailing at the beginning of the year. However, turmoil in the financial and credit markets from August onwards resulted in an evident shortfall in liquidity in the market, which forced the Federal Reserve to slash the official US lending rate to 4.25%. The European Central Bank on the other hand maintained its policy of gradually increasing interest rates, initiated in December 2005, thus bringing the European lending rate to 4%. In the second half of the year, and as a result of the aforementioned market turmoil, interest rates remained unchanged.

Once again, the currency markets had a serious negative effect on European export companies during 2007 with a Euro that has held its strength against the US Dollar (US\$1.38 on average in 2007 compared to US\$1.26 in 2006) and has gained more than 10% against the Yen. 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 which have much lower labour costs and currencies that have not lost so much ground to the US Dollar.

Trends in the cost of basic raw materials used in our business (nickel and stainless steel scrap) continue to be of note, with an average price increase of 54% in 2007 based on average nickel quotations on the London Metal Exchange (LME). The rise in the price of nickel, which has risen more than fivefold in the last five years, means that this metal is now the main component of "raw and other materials" in the Group's income statement, and management of this material has taken on a new importance, particularly in light of the considerable growth in the order book. Prices of the remaining raw materials used in the Group's production process, such as molybdenum, have also risen an average of 23%, which is a reversal of the prior year's trend. 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 – at present extremely active in the main raw materials markets – and the value of the US Dollar. The combination of these factors has meant that the price of nickel for example has fluctuated wildly throughout the year, topping US\$ 54,200/tonne in May (57% above the 2006 closing price) and subsequently dropping by more than 50% to around US\$26,000/tonne at the 2007 close.

Despite the uncertainty over the raw materials market in 2007, particularly nickel, it has been possible to pass price increases on to the end customer thanks to healthy demand.

It should also be noted that the effect of the sharp hike in the cost of these raw materials has led to significant growth in group purchases in US Dollars. Accordingly, and taking into account the aforementioned decline in value of the US Dollar compared to the Euro, the relative drop in value of Tubacex sales made in US Dollars is currently more than offset by the positive effect of this currency's depreciation on raw material purchases.

For the fifth year running, the stock markets performed well, albeit with marked fluctuations throughout the year. In the case of the Spanish stock market, the IBEX35 gained 7% and the IGBM 6%. At year end, there was a significant drop in the small and medium enterprises segment which resulted in the IBEX SMALL CAP, which comprises the thirty securities with the highest adjusted free-float capitalisation, excluding the thirty-five securities in the IBEX 35 and the twenty securities in the IBEX MEDIUM CAP, and which included Tubacex in 2007, falling by 5% during the year.

Oil prices continued to rise in 2007 (an average of 10% compared to 2006) as a result of factors such as instability in the Middle East, the weakness of the US Dollar, supply restrictions imposed by OPEC, heightened tensions in oil-producing countries and, above all, heightened 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. In this context, the price of the Brent barrel rose to an historic high of almost US\$95 at the end of 2007. OPEC estimates that oil prices will rise at an average annual rate of 1.4% until 2030 and that oil will account for 37% of energy requirements for this period.

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 raised their level of activity throughout the year. 2007 has therefore been characterised by high demand from these sectors, which has translated into greater margins due to the enormous added value of the products, and by the gradual improvement in the distribution market, particularly in Europe and NAFTA countries, resulting in the largest order book ever.

The Tubacex Group has therefore continued to implement its Competitiveness Plan and develop its Strategic Plan 2010 in order to fulfil its strategic objectives, the most distinguishing features of which are as follows:

- 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 among the different units 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 flows 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 responsibility as one of the Group's main values with a focus on total quality management, environmental policies and labour risk prevention in all the Group's units.

As the main points of the current Strategic Plan 2010 are about to be completed in 2008 and 2009, the Tubacex Group has reached a point of strategic reflection with a view to launching a new and more ambitious Strategic Plan that will allow it to meet the challenges which the Group faces. The aim of this new Strategic Plan, which will be made known during the second quarter of 2008 and will last until 2012, is for the Group to become leader in its sector.

### 1. PERFORMANCE OF THE GROUP'S BUSINESS IN 2007

In order to carry out a detailed study of the main business variables during 2007, the variations in the main entries of the consolidated income statement will be analysed 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 Risk management policy
- 1.4 Commercial activity
- 1.5 Industrial activity
- 1.6 Competitiveness Plan
- 1.7 Strategic Plan

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

For comparative purposes, the main captions of the consolidated income statements for 2007, 2006 and 2005 are as follows:

	(in millions of Euros)					
	2007	%	2006	%	2005	%
<i>Revenue</i>	696.73	100.00	539.07	100.00	430.50	100.00
<i>Other income</i>	7.69	1.10	1.11	0.21	4.13	0.96
<i>Variation in stocks</i>	29.09	4.17	6.95	1.29	28.89	6.71
<b>Total operating income</b>	<b>733.51</b>	<b>105.28</b>	<b>547.13</b>	<b>101.50</b>	<b>463.52</b>	<b>107.67</b>
<i>Purchases and materials consumed</i>	-441.80	-63.41	-321.65	-59.67	-264.60	-61.46
<i>Personnel expenses</i>	-94.68	-13.59	-85.36	-15.83	-82.55	-19.18
<i>External and operating expenses</i>	-90.87	-13.04	-76.09	-14.12	-63.72	-14.80
<b>Gross operating profit</b>	<b>106.17</b>	<b>15.23</b>	<b>64.03</b>	<b>11.88</b>	<b>52.65</b>	<b>12.23</b>
<i>Amortisation, depreciation and impairment</i>	-16.69	-2.40	-16.74	-3.11	-15.64	-3.63
<b>Net operating profit</b>	<b>89.47</b>	<b>12.84</b>	<b>47.29</b>	<b>8.77</b>	<b>37.01</b>	<b>8.60</b>
<i>Finance income</i>	7.82	1.12	6.69	1.24	6.61	1.54
<i>Finance expenses</i>	-19.84	-2.85	-12.76	-2.37	-10.37	-2.41
<b>Profit on ordinary activities</b>	<b>77.46</b>	<b>11.11</b>	<b>41.22</b>	<b>7.65</b>	<b>33.25</b>	<b>7.72</b>
<i>Net extraordinary income/(expense)</i>	-	-	-	-	-	-
<b>Consolidated profit before income tax</b>	<b>77.46</b>	<b>11.11</b>	<b>41.22</b>	<b>7.65</b>	<b>33.25</b>	<b>7.72</b>
<i>Income tax</i>	-20.80	-2.99	-10.27	-1.91	-7.83	-1.82
<b>Net profit attributed to the parent company</b>	<b>56.66</b>	<b>8.13</b>	<b>30.95</b>	<b>5.74</b>	<b>25.42</b>	<b>5.90</b>

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

- Sales are up 29.2% on the prior year due to both the higher volume of tons sold and the price effect. The prices of our products rose significantly this year, which is improving and will continue to improve the Group's performance. However, also important is the fact that price increases in the main raw materials were able to be passed onto customers due to healthy demand. Trends by geographical area are shown in section 1.3.
- As in prior years, the continued decline in value of the US Dollar against the Euro is a vital 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. In terms of group profitability, the fact that a substantial portion of raw materials are stated in US Dollars offsets the effect of the depreciation of this currency against the Euro.
- The cost of materials consumed, which amounted to 63.4% as a percentage of net sales, continues to remain high due to the price of raw materials (the cost of nickel has risen on average 54% in 2007 to historically high levels) and the considerable growth in group activity.
- The above-mentioned factors, coupled with a competitiveness and cost-cutting programme, improved end demand and the Group's firm commitment to grow in segments with products of a higher added value, are the determining factors behind the rise in the Group's profitability and net profit for 2007.
- Personnel expenses have risen by 10.9%. In prior years provision was made to cover expected future liabilities deriving from an agreement to implement relief contracts during the periods 2003-2005 and 2006-2008 in Tubacex S.A., Tubacex Tubos Inoxidables, S.A. and Acería de Álava, S.A. These agreements are allowing the Group to improve competitiveness and profitability, streamline its workforce, enhance production structures and renew, train and improve the skills of its personnel. The Group's average headcount has risen from 1,771 at the end of 2006 to Euros 1,913 thousand at the 2007 closing date.
- Other operating expenses increased by 19.4% due to several factors, one of which has been the growth in group activity and the rise in energy bills (electricity and gas). The Tubacex Group is developing specific projects aimed at curtailing the main expense items which have already shown results this year and will continue to do so in the future.
- The Group's financial situation is still sound - see point 1.2. of this report - due to the constant decline in long-term debt in recent years to around Euros 4.7 million at the end of 2007. 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 leading to an increase in financial expenses of Euros 7 million in 2007. The impact of exchange gains and losses should also be taken into

account, which are a result of the group's policy of monitoring the exposure of sales and raw materials to the risk of currency fluctuations.

- The effect of the income tax reform approved by the Alava regional government, which reduced the income tax rate from 32.6% to 28%, has been twofold: firstly, it has reduced the income tax expense of group companies located in Alava, and secondly, this year the Company has had to decapitalise part if its tax credits remaining on the balance sheet of certain companies for this difference between 32.6% and 28%. This adjustment, included in the 2007 income statement, amounts to approximately Euros 700 thousand.

## 1.2 Financial activity

Group shareholders' equity amounted to Euros 265.9 million at the end of 2007, representing 44.1% of total liabilities (41.7% in 2006). Net debt as a percentage of shareholders' equity stood at 66.3% compared to 75.8% in 2006. The drop in this ratio is important taking into account the effect the rise in the cost of raw materials and group activity has had on financing the Group's current assets.

Of the total amount of financing available from financial entities at the end of 2007, only 2% relates to long-term debt (3% and 8% in 2006 and 2005), with the remainder used for financing companies' day-to-day operations and repayable in the short term. Had the rise in raw material prices and production levels not occurred, the Group's net debt in comparative terms would have fallen considerably.

The Group's working capital totals Euros 152.5 million for 2007, which is an increase of almost Euros 40 million on the prior year's amount of Euros 113.1 million. This reflects the soundness of the Group and its capacity to self-finance investment plans, including those set out in the Competitiveness and Strategic Plans.

The value of the Group on the stock exchange rose by 35.2% in 2007. Shares increased from Euros 4.94 per share at the close of 2006 to Euros 6.68 at the close of this year. This is the seventh consecutive year that Tubacex, S.A. shares have risen, climbing from Euros 1.10 per share at the end of 2000 to the current price of Euros 6.68 (+507.3%). The maximum price quoted during the year was in October, when shares reached a high of Euros 7.78, whereas the minimum price of Euros 4.89 per share was quoted on 5 March.

A total of 276.63 million shares were traded on the stock exchange during the year, which is 5% higher than the 263.34 million traded in 2006.

This figure signifies a rotation of 208% of the total number of the Company's shares, which stands at 132.98 million. Effective trading for the year amounted to Euros 1,713.14 million, 41.1% higher than the prior year when the value of shares traded reached Euros 1,214.27 million. The Company's market capitalisation at 31 December 2007 amounted to Euros 888.29 million, 35.2% up on the prior year-end figure of Euros 656.92 million.

Since 2 January 2007, Tubacex has formed part of the IBEX SMALL CAP index, which comprises the thirty securities with the highest adjusted free-float capitalisation, excluding the thirty-five securities in the IBEX 35 and the twenty in the IBEX MEDIUM CAP index. This index recorded a drop of 5% in 2007.

## 1.3 Risk management policy

As part of the activity analysis for 2007, attention should be drawn to the risk management policies currently in place to mitigate the Company's exposure to the principal risks associated with its activity, 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 in 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 in accordance with prudent policies.
- Independence in the fields of financial, sales and purchasing management.
- Levels of authority defined in accordance with operation type.
- Compliance with the hedging policies defined by the Audit Committee.

Details of the main, specific measures which the Group takes to control its exposure to the risks associated with its activity are as follows:

- Price of raw materials risk  
The Group uses raw material price swaps which are due to mature when production of the corresponding order commences, in order to ensure that fixed margins are obtained when the sale is closed. This control is particularly important for hedging orders at fixed prices.
- Foreign exchange risk  
The Group operates on an international scale and is therefore exposed to foreign exchange risk on foreign currency operations, particularly in US Dollars. In order to control the foreign exchange risk on future commercial transactions involving raw material purchases and sales made in foreign currencies, group companies employ forward currency contracts negotiated with financial entities.
- Liquidity risk  
The Group manages liquidity risk prudently, based on maintaining sufficient cash and negotiable securities, the availability of financing through adequate credit facilities and sufficient capacity to settle market positions.

- Interest rate risk  
The Group's interest rate risk arises from current and non-current liabilities. Liabilities issued at variable rates expose the Group to cash flow interest rate risk while fixed-income loans expose the Group to fair value interest rate risk. This risk is basically covered mainly using IRS hedges.

## 1.4 Commercial activity

Consolidated group sales reached Euros 696.73 million in 2007, a rise of 29.2% compared to the prior year. As discussed in section 1.1 above, this growth is due to both a positive volume and price effect. However, in order to take into account the geographical side of business performance for the year, details of group sales by geographical market for the last three years are as follows:

	(in millions of Euros)			
	2007	2006	2005	2007/2006
Europe	508.68	368.33	283.26	+38.11%
USA	103.96	93.97	85.67	+10.62%
Other countries	84.10	76.77	61.57	+9.54%
<b>Total sales</b>	<b>696.73</b>	<b>539.07</b>	<b>430.50</b>	<b>+29.25%</b>

73% of total sales in 2007 relate to the European market, 15% to the USA and 12% to other countries. In 2006 this distribution was 68%, 18% and 14%, respectively. The most significant factors behind this tendency are as follows:

- The North American market, which has been regaining ground since 2005, maintained its position in 2007 through improved levels of end demand that made it possible to minimise the weakness of the US Dollar. This growth in demand resulted in turnover of Euros 103.96 million, 10.62% up on 2006, and is attributable not only to the rise in exports to this market from group factories in Europe but also, and to a significant extent, the 27.9% increase in sales made by Salem Tube Inc. This company attained its highest profitability and turnover figures since it was integrated into Tubacex in 1995.
- In 2007 the European market grew by 38.11% as a result of the strong demand in the European Union as a whole, which has enabled raw material cost increases to be passed on to the end customer, and base prices to be increased, thereby improving group performance. Group sales in Europe continue to account for over 73% of total sales, thus confirming the Company'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. This resulted in commercial branches being opened in Shanghai (China) at the end of 2004, Sao Paulo (Brazil) in 2006 and Dubai (United Arab Emirates) in 2007, with a view to building a much closer relationship with our end customers and markets.

## 1.5. Industrial activity

During 2007 the Tubacex Group continued the strategy initiated in prior years of maintaining a strict policy of prudent investment based on in-depth analyses of expected return on proposed investments (payback in under four years). Group policy has also focused on improving market share and adapting to current and future market conditions.

Investments in plant, machinery and equipment in 2007 amounted to approximately Euros 18.4 million compared to the Euros 11.3 million invested in 2006. This increase is largely attributable to the implementation of the Competitiveness Plan described in section 1.6 of this report.

These investments are ensuring improved performance and production capacity in the Group's key plants without significant increases in overheads 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.

Investments aimed at improving the efficiency of the key installations of the Group's different industrial plants have been maintained and intensified 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 and industrial safety standards.

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

The average headcount of the Tubacex Group in 2007 was 1,909, an average increase of 138 on the prior year.

## 1.6. Competitiveness Plan

A highly ambitious plan was drawn up in mid 2003 for the Tubacex Group's main production units with a view to improving operating margins and achieving a competitive edge in terms of productivity and costs. After an initial diagnostic phase of identifying areas requiring improvement, a series of projects were launched in 2004 and have been carried out in recent years.

The implementation of some of these projects has substantially raised profits in recent years and contributed to the buoyant outlook for the future.

## 1.7. Strategic Plan

As commented previously, the intense changes suffered by the sector in which the Group operates since the launch of the Tubacex Strategic Plan 2010, coupled with the fact that the majority of its objectives have already been or are due to be completed in 2008 and 2009, meant it was time to pause and

take stock of the situation. This reflection resulted in a new, more ambitious Strategic Plan until 2012 which will last until 2012 and will be made known during the second quarter of 2008.

Irrespective of the new project being drawn up, the Group has continued to make good progress in the Tubacex 2010 Strategic Plan launched at the end of 2004, aided in part by the aforementioned positive trends in demand and the success of the measures adopted. The cornerstones of this plan and the steps taken to achieve its objectives are as follows:

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

The positive trend in demand has once again made it possible to raise prices and margins for almost all products and improve the product mix. This has led to sales and operating results clearly exceeding the goals for 2010. Additionally, this increase is attributable to:

- Orientation towards the projects market with a more specialised product mix;

Yet again the weight of sales of higher added-value products in increasingly specialised alloys has risen considerably during the year.

- Industrial improvements have continued to be implemented during the year and will continue in the coming years, thereby ensuring raised group productivity.

At the end of 2007, production improvements were again incorporated, which, in addition to those implemented in prior years, should raise production in 2008 to levels approximating or even exceeding those outlined in the Tubacex Strategic Plan 2010.

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

As mentioned in section 1.4 – Commercial activity – the Group has improved its competitive position in the European market, basically on account of the growth in the projects market and the continued improvements in the distribution market, thus allowing it to implement successive price rises.

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

Asia is being targeted through the opening of commercial branches in Shanghai and Dubai.

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

- A sound management and organisational structure adapted to objectives and action plans by geographical area. Organisation geared towards obtaining results.
- Broaden the product portfolio in areas of activity with higher added value and in which the Group is not yet present.
- Commercial excellence and customer service.

A customer loyalty policy has been actively followed throughout the year and close contact has been maintained with customers. In addition to the opening of a commercial branch in Sao Paulo, (Brazil) with a view to improving our positioning in the Latin American market, a commercial branch in Dubai (United Arab Emirates), the financial capital of the world's main oil-producing region and destination of a substantial portion of our production, has been in operation since the first quarter of 2007.

The Tubacex Group therefore has fourteen commercial branches in twelve countries with sales agents in a further thirty countries across the globe. This is a result of the internationalisation process embarked upon in prior years which has converted the Group into the world's second largest producer of seamless stainless steel tubes.

## 2. GROUP SITUATION

The positive performance of the Group is a reflection of the significant improvement in demand during the year, particularly in the oil, gas, chemical, petrochemical and energy sectors and the gradual improvement in the tube distribution sector. Attention should also be drawn to 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 strategic, industrial, commercial, economic, financial and social activity. However, due to the significant change in the seamless stainless steel tube sector since the launch of Tubacex's Strategic Plan 2010, the Group is preparing a new and more ambitious Strategic Plan, which will be presented during 2008 and based on which the Group will strive to further adapt its production, commercial and personnel structure to the new challenges it faces.

This new Plan, as with the former Plan, will be aimed at ensuring future growth and profitability. The Group relentlessly strives to achieve excellence when dealing with customers and suppliers, to ensure that all 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 analysed 2007, a brief assessment of what could be the main trends of economic activity for 2008 and subsequent years is as follows:

The worldwide economic climate is encouraging, with continued growth forecast for 2008, although again at a slower rate than in 2007 and with greater volatility. The main causes continue to be the tightening of credit conditions for companies, households and financial institutions, with significant impacts on investment and consumption. The volatility of the price of oil and the slump in the housing market in many countries also considerably affects the outlook for 2008.

A soft landing is predicted for the US economy, with forecast growth of less than 2% in 2008. Although financial turmoil and weakening of the housing market will continue to adversely affect the largest economy in the world, the effect of the interest rate cuts applied by the Federal Reserve is expected to be felt as of the second quarter, both in terms of consumption and investment. Its external deficit is also expected to improve slightly due to somewhat lower internal demand, sustained demand from emerging markets and the weakness of the US Dollar.

Growth in Europe is also forecast to slow down somewhat, with a predicted annual rate of less than 2%. Although the credit crunch has maybe had a more moderate impact on Europe, it is also noteworthy that, due to inflation concerns of the European Central Bank, Europe will not benefit from the boost in consumption and investment driven by interest rate cuts in the US.

Growth in Asia is expected to remain vigorous, especially in China and India, thus strengthening their increasingly predominant role in the global economy. One aspect worth following is the Chinese governments' desire to moderate its growth in certain sectors which are overheating, but even so, it is unlikely that the Chinese economy will grow much below 10% in 2008.

The US Dollar, the Euro and the Yuan will once again figure strongly in the currencies market in 2008. The US Dollar continued to decline in value during 2007 and the first few months of 2008. 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. Since China's withdrawal from the fixed exchange rate against the US Dollar, its currency has devalued slightly against the Dollar.

The European Central Bank may cut interest rates if it considers that the risks of higher inflation can be mitigated to a greater extent than the risks of an economic downturn. However, sharp cuts in interest rates as seen in the US are unlikely. In fact, in the first few months of 2008 the US Federal Reserve continued its policy of cutting interest rates due to the turmoil of the financial and credit sector. The rate of deceleration of the US economy and its reactivation once the effects of the interest rate cuts begin to be perceived, will determine the scale of any additional cuts made by the Federal Reserve.

During the first few months of 2008 oil prices reached new record highs, with the Brent barrel breaking the US\$ 110 barrier. The tight margin of unused production capacity means prices are extremely sensitive to unexpected changes in the balance between supply and demand, which means prices will remain high and volatile. These unforeseen changes usually arise, and will continue to do so, from new geopolitical conflicts, production cutbacks or supply problems.

The cost of other raw materials – nickel, stainless steel scrap, chrome and molybdenum – is expected to remain high for most of the year, although this market is likely to remain unstable throughout 2008, fuelled by increasing end demand and the speculative factors described previously.

The iron and steel sector will not be immune to these overall growth trends, and 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. 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 manufacturers as a result of the application of new environmental regulations, and, finally, possible mergers to create more powerful groups and thereby hinder the introduction of foreign capital.

Growth in the seamless stainless steel tube sector during the year is expected to continue in 2008 with an improved pricing structure, product mix and production capacity. Risks such as high raw material prices and the weakness of the Dollar against the Euro are expected to persist. It is against this backdrop that the main objectives of the Tubacex 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 2008 and thereafter which are important strengths for the Group include the following:

- Development of and compliance with corporate governance and social responsibility policies.
- 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 gain 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.

This series of strategic objectives and our commitment to productive and commercial excellence is 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 2007 the Group continued its policy of investing in projects aimed at 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:

- Development of more resistant steel and alloys for more critical uses in especially aggressive environments. The Group has continued work on the multi-year programme for developing different grades of steel and nickel alloys.
- The Group has continued to roll out a multi-year programme for developing rust, corrosion and heat-resistant steel for energy generation plants.
- A new collaboration agreement was signed with the University of Canterbury (New Zealand) for a period of three years, with the participation of other industry companies such as Methanex and Schmidt-Clemens Group. The objective of the agreement is to improve the manufacturing processes of alloys with a high nickel content used in energy production, by monitoring the microstructure obtained.

The projects described above are clear 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

Having adapted the Group's plants to current environmental standards in recent years, and certified and consolidated its Environmental Management Systems, the projects and supplementary information for attaining integrated environmental authorisation for the Tubacex Tubos Inoxidables, S.A. centres (Amurrio and Llodio), Acería de Álava, S.A. and the Acería de Álava, S.A. non-hazardous waste dump have been prepared and presented to the Basque government. These projects provide an insight into the environmental situation of the Group's activity and the improvements made in recent years due to the implementation and consolidation of the environmental management systems and the close collaboration with the authorities within the framework of environmental agreements.

In 2007 the Group also submitted the required integrated environmental authorisation documentation, as all Tubacex Tubos Inoxidables, S.A. centres and Acería de Álava, S.A. are subject to Law 16/2002 governing the Integrated Prevention and Control of Pollution and must therefore prove that the best available technology to monitor and reduce environmental impact has indeed been implemented. This process has resulted in different lines of investment for 2008, which will mainly focus on optimising water consumption.

Acería de Álava, S.A., as a company operating in the steel production sector of the Basque Country, has continued to carry out activities under the voluntary agreement signed with the local government's Planning and Environment Authority concerning the improvement of the environment in the sector. This Company is also a member of Steel and the Environment (ACYMA), an association formed by all steel manufacturing companies in the Basque Country which monitors, inter

alia, the correct management of industrial waste in the sector and the environment.

Tubacex Tubos Inoxidables, S.A. has also continued on the work resulting from the voluntary agreement between the surface treatment sector and the Planning and Environment Authority on account of the pickling activity being carried out in both its work centres.

The companies Tubacex Tubos Inoxidables, S.A. (2001), Acería de Álava, S.A. (2002) and Schoeller-Bleckmann Edeltahlrohr GmbH (2006) have an officially certified ISO 14001 environmental management system in place. Consequently, the entire production process of the Llodio, Amurrio and Ternitz (Austria) plants of the TUBACEX Group, from receipt of raw materials and production of stainless steel in Acería de Álava, S.A. to the delivery of the pipes manufactured in Tubacex Tubos Inoxidables, S.A. and Schoeller-Bleckmann Edeltahlrohr GmbH, has been approved by an accredited entity in terms of environmental management.

We believe this accreditation to be a reflection of an effective, modern policy of quality management and environmental protection applicable to all of the Group's production units.

As one of its priority strategies, the Tubacex Group has undertaken to carry out environmental activities and, to this end, its policy is to establish, in 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 Corporate Social Responsibility Report.

## 7. STATUTORY ACTIVITY

The Corporate Social Responsibility Report, attached to this Annual Report, details the general policies and specific activities carried out by the Tubacex Group in 2007 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. CORPORATE GOVERNANCE

### INFORMATIVE REPORT PURSUANT TO THE REQUIREMENTS OF ARTICLE 116 BIS OF SECURITIES MARKET LAW FOR THE YEAR ENDED 31 DECEMBER 2007

The directors of Tubacex, S.A. at their board meeting held on 14 March 2008 have prepared this report in accordance with the requirements of article 116 bis of Securities Market Law, which contains the following information:

#### 8.1. Capital structure, including securities not traded on an EU regulated market, indicating, where applicable, the different classes of shares and, for each class of share, the associated rights and obligations and the percentage of share capital they represent.

At the date of this report, the share capital of Tubacex, S.A. amounts to fifty-nine million, eight hundred and forty thousand, four hundred and fifty-one Euros and ninety cents (€59,840,451.90), divided into one hundred and thirty-two million, nine hundred and seventy-eight thousand, seven hundred and eighty-two ordinary shares (132,978,782) of forty-five cents (€0.45) par value each, numbered from one to one hundred and thirty-two million, nine hundred and seventy-eight thousand, seven hundred and eighty-two, inclusive, and all of the same class and series.

#### 8.2. Any restrictions on the transferability of shares

There are no statutory restrictions on the transferability of Tubacex, S.A. shares.

#### 8.3. Significant direct or indirect share capital holdings

Details of direct or indirect significant share capital holdings in the Tubacex, S.A. of which the Company is aware, according to the information contained in the records of the Spanish National Securities Market Commission, are, at the date of this report, as follows:

NAME	No. OF DIRECT VOTING RIGHTS	No. OF INDIRECT VOTING RIGHTS	TOTAL No. OF SHARES	PERCENTAGE
Alvaro Videgain	57,275	7,550	64,825	0.05%
Juan Ignacio Garteizgogea	-	-	-	-
José Antonio Ardanza	12,000	-	12,000	0.01%
Gerardo Aróstegui	-	43,000	43,000	0.03%
Bagoeta S.L.(1)	-	24,052,798	24,052,798	18.09%
Alejandro Echevarría	6,925	-	6,925	0.01%
Manuel Guasch	-	-	-	-
Juan Ramón Guevara	-	-	-	-
Pedro Luis Uriarte	96,969	-	96,969	0.07%
Atalaya Inversiones S.R.L.	6,653,503	-	6,653,503	5.00%
<b>TOTAL</b>	<b>6,826,672</b>	<b>24,103,348</b>	<b>30,930,020</b>	<b>23.26%</b>

(1) Represented by Luis María Uribarren, Chief Executive Officer of Bagoeta S.L.

(2) Represented by Antonio Pulido Gutiérrez, Chairman of Cajasol.

According to information obtained from the Spanish National Securities Market Commission, holders of direct and indirect shareholders of significant share capital holdings in Tubacex, S.A. at the 2007 closing date, excluding the board of directors and treasury shares, are as follows:

NAME	No. OF DIRECT VOTING RIGHTS	No. OF INDIRECT VOTING RIGHTS	% OF SHARE CAPITAL
Grupo Corporativo Empresarial de la Caja de Ahorros y Monte de Piedad de Navarra	6,648,950	-	5.00%

#### 8.4. Any restrictions on voting rights

The voting rights of Tubacex, S.A. are not subject to any restrictions.

#### 8.5. Parasocial agreements

There are currently no agreements of this type among significant shareholders or significant shareholders and the Company or its subsidiaries, as the agreement governing relations between Atalaya Inversiones S.R.L. y Zoco Inversiones S.R.L up to 2007 has been dissolved.

#### 8.6. Regulations applicable to the appointment and replacement of the members of the board of directors and modifications to the Company's By-laws

The members of the board of directors are appointed directly by the shareholders at their annual general meeting, or at the proposal of the board of directors pursuant to the Spanish Companies Act. Candidates must be preceded by a proposal from the Appointments and Remunerations Committee.

The board of directors and the Appointments and Remunerations Committee will, within the scope of their competence, endeavour to ensure that potential candidates have recognised solvency, ability and experience and will exercise due rigour when assessing them.

The board of directors may not propose or appoint any candidate who is involved in managing the Company or who, through family or for professional or commercial reasons, is related to executive board members or other members of senior management.

In particular, the following individuals may not be proposed as independent board members: persons who hold, or have held in the last two years, executive positions in the Company; persons who are, or in the last three years have been partners of the external auditor of the Company or any group company; persons who are related by family to persons who hold or, or have held in the last two years executive or senior management positions in the Company; persons who have, or have had in the last year, a significant business relationship with the Company, either on their own behalf or through a company in which they have a significant interest; persons who, directly or indirectly through companies in which they have a significant interest, have made or received payments or donations to or from the Company in the last three years which could compromise their independence; persons who have other relations with the Company which, in the opinion of the Appointments and Remunerations Committee, could compromise their independence;

persons who have not been proposed for appointment or renewal by the Appointments and Remunerations Committee.

The By-laws of Tubacex may be modified in accordance with the general regulations set out in the Revised Text of the Spanish Companies Act.

#### 8.7. The powers of the members of the board of directors and, in particular, those relative to the possibility of issuing or repurchasing shares

Except in those areas which fall under the competence of the shareholders at their annual general meeting, the board of directors of Tubacex, S.A. is the Company's ultimate decision-making body, and is responsible for the general supervision and control of its executive bodies. The board delegates the day-to-day management of the Company to its executive bodies and management team, and is responsible for the following functions which are not delegated:

- \* Approving the general strategies of the Company.
- \* Appointing, remunerating and, where appropriate, dismissing the most senior members of management.
- \* Approving treasury share policy.
- \* Controlling management activity and assessing members of the management team.
- \* Identifying the main risks to which the Company is exposed, particularly those arising from derivative operations, and the adequate implementation and monitoring of internal control and information systems.
- \* Defining the Group's structure.
- \* Corporate governance policy.
- \* Corporate social responsibility policy.
- \* Determining the policy on information and reporting to shareholders, markets and public opinion.
- \* In general, operations involving substantial company assets, and major company operations or those which could impair the Group's fiscal transparency.

#### 8.8. Significant agreements which enter into force, are modified or expire as a result of a change in control in the Company deriving from a public takeover bid, and the effects thereof, except when disclosure could seriously prejudice the Company. This exception is not applicable when the company is legally bound to disclose this information.

Tubacex is currently not party to any agreement described in article 116 bis h) of Securities Market Law.

#### 8.9. Agreements between the company and its directors and management or employees over indemnities if they resign or are dismissed without due cause, or if the working relationship terminates because of a public takeover bid.

No member of the management team has been dismissed during 2007 nor has the Company been the subject of any public takeover bid.

## 9. ACQUISITION OF OWN SHARES

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

## 10. 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	-
Voluntary reserves	4,747
Ordinary dividend	19,831
<b>Total</b>	<b>24,578</b>

Dividends are employed to remunerate shareholders and 35% of net consolidated profit for 2007 will be distributed. This dividend will be the highest paid out to shareholders since this remuneration policy was agreed in 1996.

## 11. FINANCIAL INSTRUMENTS

Detailed information in relation to forward currency and raw material contracts and interest rate swaps held by the Tubacex Group at 31 December 2007 are shown in note 9 to the consolidated annual accounts.

## 12. OTHER

### 12.1. Audit fees

Fees incurred by the main auditor in respect of professional services performed for the Tubacex Group in 2007 amounted to Euros 175 thousand.

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