



Dear Shareholder,

Once again, I have the honour of writing to you on behalf of the Board of Directors of TUBACEX and presenting this Annual Report, a document providing you with the most important data from the financial year 2003 and informing you of the strategic lines our Group is currently following.

2003 was a year in which the seamless stainless steel tube sector was forced to make major adjustments. Not since the 1990s has the market been as unfavourable as it has this year.

Most of the year has been marked by economic and geopolitical instability caused by the conflict in Iraq, which has acted as a brake on industrial investment in sectors such as oil, petrochemicals, chemicals and energy, which account for an important part of the demand for our products.

This drop in demand, bringing with it a fall in prices, has also given rise to two other factors that were evident in 2002 but which have had an increasingly negative effect over the last year, impacting seriously on profits.

The first of these factors is the negative effect that the 20% rise of the euro against



the dollar and its 10% rise against the yen - to name but two currencies - has had on the exports of European companies in the sector. On the one hand, this rise has hit our sales in these markets and, on the other, it has indirectly favoured manufacturers in emerging countries - particularly in Eastern Europe and Asia - where labour costs are very low and whose currencies have not risen against the dollar.

The second factor concerns the fact that the prices of the raw materials used by the Group (mainly nickel and stainless steel scrap) have risen steeply. As far as nickel is concerned, average prices have increased by 42% in 2003 and the price actually

reached \$16,600 per ton in December. In view of the economic situation experienced over the last year, it has not been possible to pass all of this increase on to the client.

In what has been a very difficult year, the consolidated sales of TUBACEX amounted to €258.92m, down 9.7% on 2002. Operating profits totalled €10.20m, 43.2% less than the previous year. The company's consolidated net profit was €6.04m, a drop of 63% and net cash flow totalled €21.13m, a fall of 35.1% on 2002.

These are very modest results if compared with 2002 but, as well as reflecting the harsh realities of the past year, they also underline one essential fact: even in the worst market situation experienced in recent years, the TUBACEX Group has still been able to generate profits of €6.04m, make investments in facilities and machinery totalling €6.80m, reduce its debt by 3% and pay out a dividend of €5.58m to its shareholders.

The high degree of integration in the new industrial group has had much to do with this; a combination of hard work and teamwork that has also allowed us to consolidate the company's position - even at a time when global demand is shrinking - as the second largest manufacturer in the world of seamless stainless steel tubes, with a world market share of over 20% in its range of products.

We are convinced that we must continue to make internal improvements throughout the organisation, in each business unit and together as a Group with regard to the reduction of costs and increased competitiveness. With this in mind, we have started to implement an Industrial Competitiveness Plan in 2003, enabling us to speed up the improvement plans now operating in the various business units so we can capitalise on industrial synergies and maximise the economies of scale deriving from the Group's current industrial configuration.

The aim of the Plan is to impact on the areas through which we can generate greater profits by both increasing revenue and cutting costs. There is great potential for improvements to be made in relation to costs and the productivity of various subsidiaries and in 2004 we will make a series of investments aimed at increasing the productivity of certain plants that are key to the industrial process. The entire organisation is working towards this objective.

The Plan is already coming to fruition and its benefits will become more evident through the course of 2004 and in the years to come.

In conjunction with these programmes we have also been working on the design and development of the company's strategy for the future and the Group is currently preparing the launch of a new Strategic Plan in 2004. The aim is to define a competitive business project to take us up to 2010.

Although the previous growth-based strategy was largely based on growth through acquisitions - as was the case with the purchase of SBER - the management team is working to generate value in the new Strategic Plan through organic growth along two lines.

Firstly, the optimal use of the capabilities of the group's current manufacturing structure identified in the Competitiveness Plan is a highly significant competitive advantage that will bring about considerable improvements in terms of costs, productivity and the efficient use of the Group's assets and resources.

Secondly, the quest for commercial excellence within the period envisaged by our Strategic Plan is based on a series of key lines of action aimed at safeguarding the company's leadership and profitability in Europe, growth in traditional regions such as America and those areas where increased demand for seamless stainless steel tubes is predicted in the long term, such as Asia. Furthermore, the launch of new products offering high added value and the potential for growth will help reinforce our product range in the most profitable market niches.

This strategy for organic growth also encompasses any specific acquisitions made in the geographical regions and in the key processes in the value chain that strengthen the Group's competitive position, always in line with both the strategic approaches defined and the criterion of safeguarding our capital and financial solvency.

In order to achieve these goals, we need to adapt our capacity for management in an organisation with plants in two continents and which operates throughout the world.

In view of this ongoing development it is very important to stress TUBACEX's commitment to Good Corporate Governance. TUBACEX is a pioneer in applying the principles of Good Corporate Governance to its actions and activities. Consequently, during financial year 2003 we continued to make progress in this sense by incorporating the latest legislative requirements including those outlined in the National Stock Market Commission's most recent circular in March 2004 concerning the Annual Report on Corporate Governance in companies quoted on the stock exchange. To this effect, we will propose that the Board of Directors' Code be approved at the Annual General Meeting to be held in May 2004. At the AGM we will once again put the issue of the elimination of the voting right restrictions currently contained in our Articles of Association on the agenda. These were not abolished at the previous AGM as the required quorum was not secured. The Board of Directors is committed to making changes designed to bring about transparency in its management processes.

You will also find a comprehensive report on corporate social responsibility, a policy we started to implement last year in recognition that business ethics, good corporate governance, transparency, knowledge, respect for the environment, support for culture and contributions towards the development of persons and of society are not only taking on increasing importance but are also becoming an essential investment in the creation of value.

I do not want to conclude this review of the financial year without referring to the performance of our stocks on the stock market. At the end of 2003, TUBACEX stock stood at a price of €1.42 per share, a rise of 13.6% for the year. This is the third consecutive year in which the value of its stock has risen, amounting to a combined rise of 29.1% since 2000. In this same three-year period the Spanish Stock Exchange IBEX index has suffered a fall of 15.1%.

Continuing with our policy of shareholder remuneration, TUBACEX distributed a gross dividend of €0.042 per share among its shareholders during the year, paying out a total of €5.58m, 34.2% of the profits for 2002. It must be emphasised that the yearly dividend payment represents 2.96% of the listed share price at the end of the financial year.

As far as the current financial year is concerned, these smaller profits obtained

mean that the dividend will have to be reduced in absolute terms although we will increase the payout to up to 40%. More specifically, the dividend proposed to the Annual General Meeting of Shareholders, charged to freely available reserves, amounts to €0.0182 gross per share. It is our intention to continue with this method of using dividend as a form of remuneration, while considering the possibility of complementing it with other formulas and allocating between 30 and 40% of the annual profits to providing repayment for our shareholders.

With regard to the current year, 2004, the outlook is for the global economic situation to improve with world growth estimated at over 4%. The main driving forces behind this growth are the USA and Asia, particularly China.

As regards our sector - seamless stainless steel tubes - following the last few years in which global demand has dropped, demand is set to grow year on year between 2004 and 2010 by an average of 4%, particularly in Asia (6.6% except in Japan), the USA (4.4%) and to a lesser extent, Europe (2.7%) and Japan (1.1%). This increase in demand will also have a beneficial effect on prices.

The first few months of the new financial year have confirmed this upturn in the market both in terms of demand and prices although the euro is still strong against the dollar. The implementation of the Competitiveness Plan will also lead to significant improvements in terms of costs and productivity leading, in turn, to increase profits, a trend already reflected in the results for the first quarter.

Our Group is well - structured in all areas of activity - strategic, industrial, commercial, financial, and social. Every day it strives for excellence in its dealings with clients and suppliers; it instils its employees with a set of values and shared objectives, and it provides a focus for their work in creating value for the shareholder. This is a goal we are striving hard to achieve.

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