

# PRESIDENT'S STATEMENT

Dear Shareholder,

Once again I have the honour of addressing you on behalf of the Board of Directors of TUBACEX in order to inform you, by means of this Annual Report, of the most important data concerning financial year 2006, as well as the main strategic lines of action that our Group of companies is currently implementing.

We again find ourselves with a financial year in which expectations have been fulfilled and we have set new records in sales, profits and cash flow figures.

Included among the factors that explain this favourable financial year we have to highlight, first and foremost, the positive evolution of the world economy, backed by growth in the U.S.A. and China and an important recovery in the European Union, and especially by high oil prices, which reached 62 dollars a barrel late in the year.

The convergence of these two factors has entailed an important increase in investments in energy-related sectors, oil and gas, which are the leading demand sectors for seamless stainless steel tube, the product manufactured by TUBACEX. This strong market situation has meant a considerable rise in demand, the expansion of our order book and has also brought about an increase in the price of our products.

Sales have grown in all markets, especially in Europe and the U.S.A., but also in Asia and the Middle East, a region where sales have doubled in this financial year. This has been achieved in spite of the continuing strength of the euro against the dollar which is still penalising the exports of European enterprises.

Moreover, the prices of raw materials used by the Group have again undergone important increases during the period. Although the auspicious market situation has made it possible to pass on these price rises to the end user, the high prices of raw materials –the price of nickel has increased fourfold in the last five years-, they continue to cause instability in the market.

But in addition to the external factors already described, the good results for the financial year are solidly based on intensive internal efforts in implementing the Competitiveness Scheme, launched in 2003, by means of which TUBACEX has been and is preparing itself to take advantage of the current market demand situation and to obtain a differentiating competitive position in profitability, productivity and costs, which is making an active contribution to the increase in our operating profit margins, and will continue to do so in coming financial years.

During the financial year we have continued to enhance the competitiveness of our leading industrial facilities –steelworks, hot extrusion, cold rolling and tube finishing- and will continue to do so in coming years, because there is a significant margin for improvement in order to achieve an increasingly competitive and profitable company.

To this effect, we are successfully implementing our Strategic Plan, with a time horizon that takes us up to 2010, oriented towards ensuring future growth and profitability, as well as converting our company into the world's leading manufacturer of seamless stainless steel tubes.

This Plan optimises the current production capabilities of the factories in the Group and strengthens its commercial excellence in customer service. The strategy we have adopted is creating important profitable organic growth, which minimises Group investment requirements and maximises the creation of value expected by shareholders.

During the financial year we have started the development, manufacture and marketing of new high-value and technologically-advanced products, as well as products for which there are higher demand growth expectations. This commitment to innovation and specialisation is to be reinforced in an important manner in forthcoming years.

From the commercial point of view, we are still consolidating our position of leadership and profitability in Europe, seeking growth in the strategic areas for our sales, such as the North American market, at the same time as in those other areas where increased demand for tubes is expected in coming years, such as Asia.

In addition, with the aim of seeking ever greater proximity to our markets and customers, we have opened one sales office in Brazil and another in Dubai, the latter one taking place in 2007, from which we shall promote our sales in Latin America and the Middle East, respectively. Including these two, the Company can now count on fourteen sales offices spread all around the world.



As far as Corporate Governance is concerned, our Company, which is a pioneer in applying the principles of good corporate governance to its actions and activities, still occupies a clear leading position in the rankings regarding analysis of these practices carried out by independent experts. The intention and the commitment of the Board of Directors are to continue incorporating all aspects that favour transparency in its management into its activities. Going deeper into this idea, the Ordinary General Meeting of Shareholders held in May 2006 agreed the elimination of the limitations on the right to vote, or so-called protection clauses, from our By-Laws. Moreover, the 2007 Shareholders AGM is going to deal with the modification of several articles in the Code of Conduct for the Board of Directors in order to adapt them to the latest recommendations in the Combined Code on Corporate Governance. Included in this Annual Report you will find a detailed report on Corporate Governance in TUBACEX.

You will also find a comprehensive report on Corporate Social Responsibility, a policy we started to implement several years ago, aware that business ethics, good corporate governance, transparency, knowledge, respect for the environment, prevention of occupational risks, support for culture and contributions towards the development of people and of society are not only taking on increasing importance but are also becoming an essential investment in the creation of value.

As far as the performance of our stocks on the Stock Market is concerned, it is noteworthy that at the end of 2006, TUBACEX stock stood at a price of 4.94 euros per share, showing a rise of 38%, supported by the positive results for the year and the positive prospects that exist about the evolution of our sector. This is the sixth consecutive year in which the listed value of the Company's stock has risen, jointly amounting to an overall increase of 350% compared to the year-end closure in 2000.

Continuing with our policy of shareholder remuneration, TUBACEX distributed two dividends among its shareholders during the year, one ordinary dividend and another supplementary dividend, for a joint amount of 0.0776 euros gross per share, involving a total of 10.17 million euros and a 40% pay-out of the 2005 profits.

For the current financial year the Board intends to propose the payment of a single dividend at the Annual General Meeting, to be paid in July, for the amount of 0.0944 euros gross per share, 21.7% higher than the previous year. The total disbursement will be 12.38 million euros, which means a payout of 40% of the profits for 2006. This will be the highest dividend paid out by the Company to date.

With regard to the evolution of the current financial year, 2007, forecasts point to a continuation of the expansive cycle of the world economy, with important growth rates in Asia and Europe and to a lesser extent in the U.S.A., which will grow by less than 3%.

Moreover, the high oil prices reached in the early months of the year –above 60 dollars per barrel in April- are continuing to relaunch important investments in the energy sectors, and therefore creating growth in the demand for seamless stainless steel tubes.

The months of this year which have already lapsed confirm that this will be an excellent financial year, as demonstrated by the splendid results for the first quarter of 2007. However, it is always advisable to be cautious, because there are still some factors that might affect development, such as prices of raw materials, the evolution of currency markets and the effects that oil prices might have on inflation.

What I can assure you is that all of us who make up this Company are going to continue working actively on those factors that our efforts can affect in order to turn TUBACEX into the leading manufacturer in the world of seamless stainless steel tubes and into an even more competitive and profitable enterprise.

A handwritten signature in black ink, which appears to read 'Alvaro Videgain Muro'. The signature is written over a horizontal line.

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