



ANNUAL REPORT ON CORPORATE GOVERNANCE

TUBACEX was one of the pioneering companies in Spain to apply Good Corporate Governance practices. In this respect, it is important to note that as early as 1994, the Company approved an “Internal Stock Market Code of Conduct” and since 1995, it has been using the recommendations made in the Cadbury and Viennot reports to modify the way in which the Board of Directors operates. These modifications include a reduced number of board and executive board members, the existence of independent board members and the setting up of monitoring bodies within the board (such as the Appointments and Remunerations and the Audit and Compliance Committees), as well as the need to forward board information to its members.

In September 1998, following the recommendations made in the Olivencia Report, the Board of Directors approved the “TUBACEX S.A. BOARD OF DIRECTORS' CODE ALIGNED TO THE GOOD GOVERNANCE CODE”, which set out basic organisation and operating standards, as well as a code of conduct for board members. The code is available on the Company's website.

Since 1998 TUBACEX's annual reports have included a chapter dedicated to Good Governance and the extent to which the recommendations have been implemented.

In 2002, and following the recommendations made by the Aldama Commission, TUBACEX added information on the By-Laws and the Board of Directors' Code to its website.

2003 saw the necessary adjustments being made in order to comply with the requirements set out in Act 26/2003, dated 17 July 2003, on information related to Good Corporate Governance, as well as the requirements set out in Circular 1/2004 issued by the Spanish National Stock Market Commission on 17 March 2004, on the “Annual Report on Corporate Governance by public limited companies listed on the stock market and other bodies that issue stocks negotiable on official secondary markets and other means of information used by public limited companies listed on the stock market”.

In the same way, the “Internal Code of Conduct in relation to the Stock Markets” was adopted in 2003 in compliance with Financial System Reform Act 44, dated 22 November 2002.

In 2004, the Code for the General Meeting of Shareholders was approved. The contents of this Code are the subject of analysis in this report and are also available on the Company's website.

In addition, all the Codes are being reviewed again in 2007 in order to adapt them to the recommendations arising out of the Combined Code on Corporate Governance for listed companies.

The most noteworthy aspects of TUBACEX's Good Corporate Governance policy are as follows:

*The board's main objective is to supervise and oversee the Company's executive bodies, with its actions being motivated by the need to maximise the Company's value, in other words, to create shareholder value.

*The code states that there must be a clear majority of independent or non-executive members on the board. The Board is currently composed of ten members, seven of whom are independent members, two are proprietary members and one is an executive member. The independent members, representing 70% of the total, are external members who are not in any of the following situations:

-Is a company shareholder or has been appointed for their special link to one of the entity's shareholders, when the share in the Company's share capital, in either of these cases, is greater than 3% of shares with voting rights.

-Legal entities that have been appointed as company board members or individuals whom these legal entities have appointed as their representatives.

-Has been executive director or member of the Group's top management or of the auditing firm that is or has been auditing the Company's accounts, except when three years have passed since they stopped fulfilling this role.

-Has a significant relationship with the Company, whether this is directly or as a partner, shareholder, manager or employee of other individuals or legal entities who have a significant relationship with the Company and which could affect their independence.

-When a family relationship has occurred with any of the aforementioned individuals, or any other circumstances that the Board of Directors deems could affect their independence.

*The board features three monitoring committees: Strategy and Investments, Audit and Compliance and Appointments and Remunerations.

*The code also establishes the duties of the board members and lays out regulations relating to confidentiality, the non-competition agreement, conflicts of interest, the use of corporate assets, non-public information, business opportunities, indirect operations and the duty of informing the Company of direct ownership or ownership through relatives of shares in the Company.

A.- OWNERSHIP STRUCTURE

A.1.- Share Capital and Shareholders

The share capital of TUBACEX amounts to euro 59,840,451.90, fully subscribed and called up, and is divided into 132,978,782 nominal shares of euro 0.45 each, in one single series that are duly noted in the relevant entry, as authorised in article 51 of the Joint Stock Company Act and in accordance with articles 60 and related articles, as well as with Act 24/1988 dated 28 July in Royal Decree 116/1992 dated 14 February and other relevant statutory provisions. All of the aforementioned shares are legally authorised to be traded on the official Spanish stock market.

There has been no change to the Company's share capital in the last five years.

YEAR	NUMBER OF SHARES	SHARE CAPITAL
2006	132,978,782	59,840,451.90
2005	132,978,782	59,840,451.90
2004	132,978,782	59,840,451.90
2003	132,978,782	59,840,451.90
2002	132,978,782	59,840,451.90

According to information lodged with the Spanish National Stock Market Commission (Comisión Nacional del Mercado de Valores), the Corporate Business Group (Grupo Corporativo Empresarial) of the Caja de Ahorros y Monte de Piedad de Navarra directly holds 6,648,950 shares in the Company, representing 5% of the share capital (stockholding notified on 28 August 2006).

In the same way, there are important blocks of shares belonging to Atalaya Inversiones S.R.L. (5%) and Zoco Inversiones S.R.L. (3%), companies belonging to a number of savings banks represented by Ahorro Corporación Financiera. Both companies have signed an agreement to regulate their shareholding in Tubacex S.A.'s Board of Directors, which appears in the parasocial agreements section of this report.

As at the close of financial year 2006, the direct and indirect ownership of significant numbers of TUBACEX shares, excluding board members and bought-back shares is as follows:

BUSINESS NAME	NUMBER OF DIRECT SHARES	NUMBER OF INDIRECT SHARES	% OF SHARE CAPITAL
Atalaya Inversiones S.R.L.	6,648,941	-	5.00%
Grupo Corporativo Empresarial de la Caja de Ahorros y Monte de Piedad de Navarra	6,648,950	-	5.00%

A.2.- Directors' Shares

The number of shares owned by members of the Board of Directors, both on an aggregate and individual basis, is as follows:

NAME	NUMBER OF DIRECT SHARES	NUMBER OF INDIRECT SHARES	TOTAL NUMBER OF SHARES	TOTAL CAPITAL (SHARES)	PERCENTAGE
Alvaro Videgain	57,275	6,600	63,875	132,978,782	0.05%
Juan Antonio Garteizgoeascoa	-	-	-	132,978,782	-
José Antonio Ardanza	-	-	-	132,978,782	-
Gerardo Aróstegui	-	43,000	43,000	132,978,782	0.03%
Luis María Uribarren(1)	6,680,000	-	6,680,000	132,978,782	5.02%
Alejandro Echevarría	6,925	-	6,925	132,978,782	0.01%
Manuel Guasch	-	-	-	132,978,782	-
Juan Ramón Guevara	-	-	-	132,978,782	-
Pedro Luis Uriarte	69,696	-	69,696	132,978,782	0.05%
Zoco Inversiones S,R,L. (2)	4,039,564	-	4,039,564	132,978,782	3.04%
TOTAL	10,853,460	49,600	10,903,060	132,978,782	8.20%

(1) Managing Director of Bagoeta S.L. at that company's proposal. (2) Represented by Mr. Antonio Fernández, General Manager of Ahorro Corporación Financiera S.V., S.A.

A.3.- Parasocial Agreements

On the 23 December 2004, Atalaya Inversiones S.R.L. and Zoco Inversiones S.R.L. signed an agreement to regulate their presence on the Board of Directors of Tubacex S.A. The most important elements of this agreement, as stated in the Spanish National Stock Market Commission and on the Company's website, are as follows:

Purpose: Regulate Zoco Inversiones' and Atalaya Inversiones' relationships with the aim of these two companies collaborating to jointly appoint a member of the Board of Directors of TUBACEX to represent both companies' interests.

Appointment procedure: The position of member of the Board of Directors will be taken on by each of the companies for periods of two years, requiring the company to step down in favour of the other company each time the aforementioned period has lapsed and always at the second AGM of TUBACEX shareholders held from the moment in which they are appointed, without taking into account for this purpose, the meeting at which they were appointed. The first representative period is taken on by Atalaya Inversiones, which was appointed at the General Meeting held in May 2004. Likewise, the Parties agree that the first representative individual on the Board will be Mr. Antonio Fernández López, General Manager of Ahorro Corporación Financiera, S.V., S.A. Where appropriate, the Parties shall mutually agree the name of the individual to replace this person.

Term: This agreement shall be valid, in terms of both companies' joint shares in Tubacex S.A.'s share capital being greater than 5% of the Company's capital and also in terms of each of the parties individually owning representative shares of at least 2% of Tubacex S.A.'s share capital. Notwithstanding the above, either party may request the termination of this agreement, which would take effect as of the following Tubacex S.A. AGM of Shareholders, provided that this termination has been communicated within the minimum timeframe of one month before the aforementioned meeting is to be held.

A.4.- Bought-back shares

There has been no change to the Company's bought-back shares during financial year 2006, meaning that the number of TUBACEX shares owned by TUBACEX, S.A. itself is 1,915,306, representing 1.44% of the Company's capital. All of the Company's bought-back share movements in the last five years are included in the attached table.

YEAR	INITIAL OWN STOCK		INCREASES	REDUCTIONS	FINAL OWN STOCK	
	No. SHARES	% OF CAPITAL			No. SHARES	% OF CAPITAL
2002	1.910.306	1,44	-Purchase of 5,000 shares (1)	-	1.915.306	1,44
2003	1.915.306	1,44	-	-	1.915.306	1,44
2004	1.915.306	1,44	-	-	1.915.306	1,44
2005	1.915.306	1,44	-	-	1.915.306	1,44
2006	1.915.306	1,44	-	-	1.915.306	1,44

(1) The purchase price was €1.24 per share.

At the AGM of Shareholders, which was held on 25 May 2006, at the second call for meeting, the Board of Directors was given authorisation for the derivative acquisition of shares in the Company during the maximum timeframe of eighteen months, nullifying any unimplemented part of what was agreed at the AGM held on 17 May 2005.

These acquisitions shall be carried out within the following restrictions:

1.- That the total number of shares bought by the company and its subsidiary companies shall not exceed 5% of the share capital of TUBACEX, S.A.

2.- That it is possible to put an unavailable reserve in the liabilities that is equivalent to the amount of shares bought.

Shares should be bought at the listing price of the day on which the respective shares are bought, or if the share has not been listed on this date, at the listing price of the last day prior to which it has been negotiated on the stock exchange.

Likewise, the Board of Directors is authorised to dispose of the Company's bought shares at the listing price, as is stated in the above paragraph.

A.5.- Statutory limitations on the carrying out of the right to vote

The AGM held on 25 May 2006 removed the statutory restrictions concerning exercising voting rights that were previously in the By-Laws of TUBACEX S.A., as shown in point E regarding the AGM and the evolution of its sessions.

B. - STRUCTURE OF THE COMPANY'S BOARD

B.1.- Makeup of the Board of Directors

The Board will propose the number of board members to the AGM, according to the changing circumstances of the Company, as it considers most appropriate in order to ensure proper representation on the Board and its effective operation. The proposed number of board members will be no less than five and will never exceed twelve.

There are currently ten members on the Board of Directors and its nominal makeup is as follows:

Name	Type	Date first appointed	Date last appointed	Committees		
				Strategy and Investments	Audit and Compliance	Appointments and Remunerations
A. VIDEGAIN (1)	Executive	15.07.92	24.05.02	X		
J. A. GARTEIZGOGASCOA (2)	External independent	21.09.94	19.05.04	X	X	
J.A. ARDANZA (3)	External independent	25.05.99	19.05.04			X
G. AROSTEGUI (3)	External independent	25.06.91	25.05.06			X
L. M. URIBARREN (3) (4)	External dominical	25.05.06	25.05.06	X		
A. ECHEVARRIA (3)	External independent	25.05.99	19.05.04		X	
M. GUASCH (3)	External independent	15.03.77	25.05.06			X
J.R. GUEVARA (3)	External independent	21.09.94	19.05.04			X
P.L. URIARTE (3)	External independent	19.05.04	19.05.04	X		
ZOCO INVERSIONES S.R.L. (3) (5)	External dominical	25.05.06	25.05.06		X	

(1) Chairman. (2) Deputy Chair (3) Member of the Board of Directors. (4) Mr. Luis María Uribarren, Managing Director of Bagoeta S.L. at that company's proposal (5) Represented by Mr. Antonio Fernández, General Manager of Ahorro Corporación Financiera, S.V., S.A.

During financial year 2005, the Board of Directors of TUBACEX S.A. approved the appointment of Mr. Juan Antonio Garateizgogascoa Iguain as Deputy Chair of the Board, in accordance with the provisions of the Company's By-Laws. Mr. Garateizgogascoa has been a member of the Board of Directors of TUBACEX since 1994.

The AGM of Shareholders has appointed all board members and in the case of those whose appointment took place prior to the setting up of the Appointments and Remunerations Committee in 1995, their proposal for appointment was likewise preceded by this Commission's proposal.

In relation to article 127 ter. paragraph 4 of the Joint Stock Company Act. the Company's directors, Messrs. Ardanza, Aróstegui, Echevarría, Fernández, Guasch, Guevara, Uriarte and Uribarren do not hold any shares, either on their own account or on account of others, nor do they hold management positions in any other company whose business activity is the same, similar or complementary to the type of activity that constitutes the corporate purpose of TUBACEX S.A.

Messrs. Videgain and Garateizgogascoa do not have a share, either on their own account or on account of others, in companies whose business activity is the same, similar or complementary to the type of activity carried out by TUBACEX S.A., but they do hold management positions in companies, which being subsidiaries of TUBACEX S.A., fall into the same, similar or complementary type of activity category.

B.2.- Organisation and operating regulations for the Board of Directors

B.2.1 - Appointment, term and end of term

Appointment of board members

Board members shall be appointed directly by the AGM or by proposal from the Board of Directors in accordance with the provisions stipulated in the Joint Stock Company Act. Appointment proposals should be preceded by the corresponding proposal from the Appointments and Remunerations Committee.

The Board of Directors and the Appointments and Remunerations Committee, within the remit of their authority, shall endeavour to ensure that persons of trustworthiness, ability and experience appoint the candidates, making sure that the procedure for appointing independent board members is highly rigorous.

The Board of Directors may not propose or appoint persons to the post of independent board member who have any relationship with the Company's management or who are found to have family, professional or commercial links to the executive directors or to other members of the Company's top management.

In particular, the following persons may not be proposed or appointed as independent board members: persons who hold or have held executive posts in the Company in the last two years; family members of anyone who is or has been an executive director or top manager in the Company in the last two years; persons, who directly or indirectly, have made or have received payments from the Company via other companies that could compromise their independence; persons who have other relationships with the Company that, in the opinion of the Appointments and Remunerations Committee, could affect their independence.

Reappointment of Directors

Proposals for the reappointment of directors that the Board of Directors decides to submit to the AGM are subject to a formal process. A report issued by the Appointments and Remunerations Committee will be an essential part of this process and will evaluate the quality of work and commitment to the post of the directors proposed during the previous term of office.

The Board of Directors shall try to organise the work in a way that the external directors who are reappointed are not always assigned to the same committee.

Term of office

Directors shall carry out their duties for a maximum period of six years and can be reappointed for the same length of time. A person can not be appointed to the Board if aged 65 or over at the time of proposal.

Directors designated for co-option shall carry out their duties until the date of the first AGM.

Directors who come to the end of their term of office or for whatever other reason finish in their post, shall not be able to work for any other entity whose corporate purpose is similar to that of the Company's for a period of two years.

The Board of Directors, if it considers appropriate, can exempt the outgoing member from this obligation or shorten its length of application.

End of term of office

Directors shall finish in the post when the period for which they were appointed has lapsed and when the AGM or the Board of Directors decides to terminate the post, exercising the powers that are legally or statutorily conferred to them. Appointments of directors will terminate when, after the term has expired, the next AGM has been held or the legal period for holding the AGM that should decide about approval of the previous year's accounts has lapsed.

Directors should offer their resignations to the Board of Directors and should formalise, if the Board deems it appropriate, their corresponding resignation in the following cases:

- *When the term of office concludes after having reached 65 years of age.
- *When the executive posts to which their appointments were associated finish.
- *When they are found to be involved in any of the incompatible or banned situations previously mentioned.
- *When they are prosecuted for a supposedly criminal event or when the supervising authorities decide that they are responsible for a serious or very serious mistake.
- *When the Audit and Compliance Committee seriously caution them for having broken their obligations as directors.
- *When their presence on the Board could put at risk the interests of the Company or when the reasons for which they were appointed disappear.

B.2.2.- Appraisal of board members

Since 1999 the Board of Directors has been carrying out periodical annual assessments of the Chairman and since 2002 it has been performing self-assessment of its own performance. With a view to the next financial year, the Board intends to introduce assessment of the different Board committees.

The aspects which have been assessed in the case of the Chairman of the Board have included business-related factors (strategy, organisation structure, executive management, management control, succession planning and market dynamics) as well as other factors such as the appropriate conducting of Board meetings, relations with shareholders and the financial community in general and factors concerning ethics and good governance.

With regard to the Board as a whole, the aspects subject to assessment included matters concerning shareholders, the Board and its committees, society and the social environment, the management team, employees and the market in general.

This assessment and reflection process is enabling improvements to be obtained not only in the management of the Chairman of the Board but also in that of the Board as a whole, focusing on the most outstanding aspects at any given time.

The objective of at least one of the board meetings must be to assess the work of the Chair and the way in which the Board itself operates. This Chair and Board control session with regard to financial year 2006 took place at the board meeting held in March 2007.

B.2.3.- Board functions

Except in terms of what is reserved for the authority of the AGM of Shareholders, the Board of Directors of TUBACEX is the highest decision-making body in the Company whose general function is the monitoring and control of the Company's executive bodies. The Board's policy is to delegate the Company's day-to-day management to the executive bodies and the management team, at the same as fulfilling the following functions that they are not able to delegate:

- *The approval of the Company's general strategies.
- *The appointment, remuneration and, where appropriate, the dismissal of the Company's top executives.
- *The approval of policies in relation to bought-back shares.
- *Management control and assessment of executives.
- *Identification of the Company's main risks, particularly risks arising from transactions with derivatives and the introduction and follow up of internal control and adequate information systems.

*Determining the information and communication policy with shareholders, markets and public opinion.

*The approval of transactions that involve the availability of substantial company assets and large company operations.

Maximising the Company's value is the criteria that drives all of the board's actions and this is developed by respecting the demands imposed by right, keeping the explicit and implicit contracts agreed with employees, suppliers, financial analysts and clients in good faith, and generally observing the ethic duties that a responsible business manner requires of a company.

The Board shall determine and revise the Company's business and financial strategies in accordance with the following criteria:

- *The Company's strategic planning will be based on profitability, security and liquidity.
- *The adoption of new investment projects should be based on receiving sufficient performance in relation to the Company's capital cost.
- *There will be sufficient assessment of dividend policies and the reduction and expansion of capital, in favour of the shareholders and without being detrimental to the Company's financial structure.

Likewise, in the field of corporate organisation, the Board shall take all necessary measures to ensure that the Company's management pursues the creation of value for shareholders; that the board effectively supervises the Company's management; that no single person or a small number of persons holds decision-making power that is not subject to balance and control; and that no shareholder receives preferential treatment in relation to others.

B.2.4.- Board makeup and structure

Directors

The Board of Directors shall ensure that the number of external or non-executive directors represents a clear majority over the executive directors. Executive directors are those persons who are CEOs or who have management responsibilities within the Company, whatever their job title.

The Board shall also ensure that within the majority group of external directors, there are owners, or representatives of owners of significant and stable shares in the Company's capital (external proprietary directors) and reputable professionals who are not linked to the executive team nor to the significant shareholders (external independent directors).

Chair

The Chair of the Board of Directors shall be appointed by the board members and may, or may not, be the Company's top executive.

The Chair shall be responsible for calling the Board of Directors to meeting, of putting the agenda together for the meetings and of leading the discussion. The Chair, however, should call the board to meeting and should include on the agenda any particular item in question if three directors ask for it. If there is a tie, the Chair's vote shall be the casting vote.

If the Chair holds the position of top company executive, all powers that are delegable should be delegated to the Chair in accordance with what is stipulated in the law, the By-Laws and the Board of Director's Code. The Chair shall also be responsible for the effective management of the Company's business, always in agreement with the decisions and criteria set by the AGM of Shareholders and the Board of Directors, within the fields of their respective authority.

With a majority of two thirds of the total number of its members, the Board of Directors could agree to grant the powers of the top executive to another of its members.

The Chair of TUBACEX is currently at the same time the top executive, as he/she also holds the position of Chief Executive Officer.

Deputy Chair

The function of the Deputy Chair is to stand in for the Chair when this proves to be necessary.

Mr. Juan Antonio Garteizgoeascoa, a member of the Board of Directors of TUBACEX since 1994, has been fulfilling this role since his appointment was approved by the Board in 2005.

Secretary

The Board of Directors will appoint a secretary, who does not necessarily need to be a director. The secretary shall assist the Chair in his/her work and shall ensure that the board operates effectively, taking charge in particular of providing the directors with advice and necessary information, looking after company documents, reflecting the development of the sessions correctly in the minutes and witnessing the board's agreements.

The Secretary shall take care of the formal legalities and details of the board's actions and shall guarantee that its governing procedures and regulations are respected and regularly reviewed.

Mr. Pascual Jover Laguardia, State Attorney, has been Secretary and Legal Adviser (not a director) to the Board of Directors at TUBACEX since February 1994.

B.2.5.- Board operations

Call to meetings and frequency of meetings

The Board of Directors shall meet at least six times a year and the Chair shall call these meetings, however the board will meet as many times as the Chair deems necessary for the effective running of the Company.

The call to meeting of the ordinary sessions shall be made via letter, fax, telegram or email and shall be authorised with the signature of the Chair, Secretary or Vice Secretary by order of the Chair. Meetings shall be called a minimum of five days before the day on which the meeting is to be held and the call to meeting should include the session's agenda.

Relevant information, duly summarised and prepared shall accompany the call to meeting or shall be issued with sufficient time.

The board's extraordinary sessions may be called by telephone and are not subject to the notice period or the other requirements stipulated in the above paragraph, if the Chair believes that the circumstances justify this action.

The board will dedicate at least one session a year to evaluating the operation and quality of its work, as well as evaluating the Chair's work and, if appropriate, the work of the Company's top executive, if these posts are not held by the same person.

During 2006, the Board of Directors of TUBACEX met 8 times and the Chair and all the members were present or represented at all meetings.

Session procedure

The board will be valid in its makeup when at least half of the members plus one other member attend the meetings themselves or are represented. Directors shall make every effort to attend the sessions and, if they are not able to attend in person, they will try to arrange that another member of the board from the same group represents them and that he/she has the correct information. Information will be sent to board members at least three days before the meeting is due to take place.

The Chair will lead the discussion and will aim to encourage the participation of all the directors in the board's deliberations.

Except when another voting quorum has been specifically agreed, agreements shall be adopted by majority vote.

B.2.6.- Board Committees

The Board of Directors of TUBACEX features three monitoring committees: Strategy and Investments, Audit and Compliance and Appointments and Remunerations.

The Committees regulate their own operation, appoint a Chair and a Secretary from amongst their members and meet upon the Chair's call to meeting.

Strategy and Investments Committee

According to the board's code, the Strategy and Investments Committee will be made up of at least three of the Group's directors, with the Chair of the Board of Directors also acting as Committee Chair.

Position	Name	Type
President	Mr. Videgain	Executive
Member	Mr. Garteizgogea	External independent
Member	Mr. Uriarte	External independent
Member	Mr. Uribarren	External dominical

In 2006, this Committee met on four occasions.

Without affecting the other tasks assigned by the board, the Strategy and Investments Committee has the following basic responsibilities:

*Propose the Company's medium and long term strategic plans to the Board of Directors.

*Propose the annual investment budget of the companies that make up the TUBACEX Group.

*Propose the disinvestments of the Company's substantial assets.

*Propose large-scale company transactions to the Board of Directors.

The Strategy and Investments Committee shall meet periodically in relation to its needs and at least four times a year.

Any member of the executive team or the Company's personnel who is required to do so could attend the Committee's meetings and collaborate with it.

Audit and Compliance Committee

The Audit and Compliance Committee should have three members and should be made up of a majority of non-executive directors, appointed by the Board of Directors. The Chair should be appointed from the aforementioned non-executive directors.

Position	Name	Type
President	Mr. Garteizgogea	External independent
Board Member	Mr. Echevarria	External independent
Board Member	Mr. Fernández	External proprietary
Secretary	Mr. Jover	Secretary of the Board

This Committee met on two occasions in 2006.

Without affecting the other tasks assigned by the board, the Audit and Compliance Committee has the following basic responsibilities:

*Report to the AGM of Shareholders on the questions raised at this meeting by the shareholders in terms of their powers.

*Propose the compliance of the AGM of Shareholders in the appointment of external accounts' auditors by the Board of Directors, as stated in article 204 of the revised text of the Joint Stock Company Act.

*Monitor the internal audit services.

*Review the Company's accounts, monitor compliance with legal requirements and the correct introduction of generally accepted accounting principles, as well as report on proposals for the modification of accounting principles and criteria suggested by management.

*Act as a communication channel between the Board of Directors and the auditors; assess the results of each audit and the management team's response to the recommendations. If discrepancies arise, mediate between the auditors and the management team in relation to the principles and criteria applicable in the preparation of financial statements.

*Supervise compliance of the audit contract and ensure that opinions on the annual accounts and the main points of the audit report are written clearly and precisely.

*Review the prospectuses and periodic financial information that the Board should provide to the markets and its supervisory bodies.

*Examine compliance with the Internal Code of Conduct in relation to the Stock Markets, the Board's Code and, in general, the Company's governance regulations and make any proposals necessary for their improvement. In particular, the Audit and Compliance Committee is responsible for receiving information and, if appropriate, for issuing reports on disciplinary measures to the Company's executive team.

The Audit and Compliance Committee shall meet periodically, when it is required to do so. One of the sessions shall be dedicated to evaluating the efficiency and compliance of the Company's governance regulations and procedures and preparing the information that the Board of Directors must approve and include in its annual public documentation.

Any member of the executive team or the Company's personnel who is required to do so, is obliged to attend the committee's sessions and to collaborate and provide access to the information in their possession. The committee may also request that the accounts auditors attend their meetings.

Appointments and Remunerations Committee

The Appointments and Remunerations Committee will be made up of at least three external directors.

Position	Name	Type
President	Mr. Guevara	External independent
Board Member	Mr. Ardanza	External independent
Board Member	Mr. Aróstegui	External independent
Board Member	Mr. Guasch	External independent

In 2006, this Committee met on four occasions.

Without affecting the other tasks assigned by the board, the Appointments and Remunerations Committee has the following basic responsibilities:

- *Formulate and review the criteria governing the makeup of the Board of Directors and the appointment of candidates.
- *Provide the Board of Directors with proposals for the appointment of directors so that the board can directly appoint them or can consider them so that the AGM can make a decision.
- *Propose the system and level of remuneration for the directors, general managers and management committees to the Board of Directors.
- *Periodically review the remuneration system and consider its performance and any changes.
- *Report on transactions that imply or could imply a conflict of interests.

The committee should take into consideration the suggestions that come from the Chair, board members, directors and the Company's shareholders.

The Appointments and Remuneration Committee shall meet every time the board, or its Chair requests that a report be issued or a proposal adopted and in any case, the committee will meet whenever it is required to ensure the good development of its functions. In any case, the committee will meet once a year to prepare the information on the Directors' remuneration that the Board of Directors and Management need to approve and include in the annual public documentation.

B.3.- Remuneration of the members of the Board of Directors

Directors' remuneration

In accordance with what is stated in the current By-Laws, the Board of Directors sets the remuneration of the directors at the suggestion of the Appointments and Remunerations Committee. In the last few years, the directors' remuneration has been determined by a mixed system, where one part is based on an allowance for attending the board and committee meetings and the other part is a performance based variable which is fixed by the By-Laws at a maximum of 4% of the consolidated profits, in accordance with article 130 of the Joint Stock Company Act.

The directors' individual remuneration for sitting on the board during 2006 was as follows:

Name	Board Investments	Committees			Statutory	TOTAL
		Strategy & Compliance	Audit and Remunerations	Appointments & Allowances		
Alvaro Videgain	16,800	7,200	-	-	54,000	78,000
Juan Antonio Garzizogogeoasca	16,800	7,200	1,800	-	54,000	79,800
José Antonio Ardanza	16,800	-	-	5,400	54,000	76,200
Gerardo Aróstegui	16,800	-	-	5,400	54,000	76,200
Luis María Uribarren	8,400	1,800	-	-	36,000	46,200
Alejandro Echevarría	16,800	-	-	-	54,000	70,800
Manuel Guasch	16,800	-	-	5,400	54,000	76,200
Juan Ramón Guevara	16,800	-	-	5,400	54,000	76,200
Pedro Luis Uriarte	16,800	7,200	-	-	54,000	78,000
Zoco Inversiones S.R.L.	8,400	-	-	-	27,000	35,400
Atalaya Inversiones S.R.L.	8,400	-	1,800	-	27,000	37,200
TOTAL	159,600	23,400	3,600	21,600	522,000	730,200

Variable remuneration for the Board of Directors in 2006 as corporate fees amounted to 1.69% of the total profits for the year.

Furthermore, other remuneration methods, such as stock options and other financial instruments were not used.

Remuneration for the Group's executives

The joint remuneration for the members of the top management in 2006 was 2,573,000 euros.

This information corresponds to the group of executives who make up TUBACEX S.A.'s executive structure, as well as the General Managers of the other subsidiaries that make up the Group's companies and which are as follows:

Name	Position
Videgain Muro, Alvaro	President and CEO
Ruiz-Longarte Pérez, Guillermo	Chief Financial Officer
Fernández Muiños, Manuel	Vice-president for Sales and Marketing
Hertner, Erich	Vice-president for Production / General Manager of SBER
Robles Mollinedo, Francisco Javier	Controller / General Manager of TTI, S.A. and Acería de Alava, S.A.
Degenfeld, Paul	European Sales Manager / General Manager of SBER
Carbajo Gómez, Pedro	Purchasing and Procurement Manager / General Manager of Cotubes, S.A.
Canivell Chirapozu, Ramón María	IT Systems Manager
Lázaro Aguirre, Miguel	Rest of World Sales Manager
Azlor Villa, Antón	Human Resources Manager and Assistant to the President
Orce Zuazu, Rufino	NAFTA Sales Manager / General Manager of Salem
Villaescusa Sáiz, José Carlos	General Manager of Tubacex Taylor Accesorios, S.A.
Gómez Arrúe, Gonzalo	General Manager of Tubos Mecánicos, S.A.

B.4.- Information regarding directors

The directors are granted all powers to inform themselves on every aspect of the Company. The right to information extends to the Group's subsidiary companies, whether they are national or foreign.

In order not to disrupt the Company's day to day management, such information will be channelled via the Chair or the Secretary of the Board of Directors, who will deal with the board's requests, facilitating the information directly or offering the board appropriate contact persons within the relevant organisation level or arranging the necessary actions so that the board can carry out the appropriate on site investigation or inspection.

Likewise, in order to make the development of the board sessions easier, the directors should receive information at least three days before the meeting is due to take place.

B.5.- Director duties

The purpose of the director is to guide and control the Company's management with the aim of maximising shareholder value.

In the carrying out of their duties, the directors will act with the conscientiousness of an orderly businessperson and loyal representative, being obliged in particular to:

- *Report on and adequately prepare the board meetings and the meetings of the delegating bodies belonging to the board.
- *Attend the meetings of the bodies of which they are a part and actively participate in the discussions with the aim that their judgement effectively contributes to the decision-making process.
- *Carry out any specific task that the Board of Directors entrusts to him/her and which is reasonably understood to fall within the boundaries of their position.
- *Investigate any irregularity in the management of the Company that has come to his/her notice and monitor any potentially risky situation.
- *Urge the persons able of calling the board to meeting to call an extraordinary board meeting and include in the agenda of the first meeting to be called the items that he/she believes to be necessary.

Duty of confidentiality

The directors shall keep secret the deliberations of the Board of Directors and the delegated bodies to which he/she belongs and, in general, the directors shall refrain from passing on information that they have access to in the carrying out of their duties. The duty towards confidentiality will remain even when they are no longer in the post.

Non-competition agreement

The directors may not render their professional services to companies whose corporate purpose is completely or partially similar to the Company's. This applies except in the case of posts that can be carried out in the Group's companies.

Before accepting any executive post in another company or entity, directors must first consult the Appointments and Remunerations Committee.

Conflicts of interest

Directors should refrain from contributing to or interfering in deliberations that affect issues in which they have a personal interest.

A director will also be considered to have a personal interest when the issue affects his/her spouse, direct family members, or when the issue affects a company where the director or the aforementioned members of his/her family holds an executive post or has a significant share in the Company.

Directors shall not carry out professional nor commercial transactions with the Company, whether of a direct or an indirect nature, unless they have previously reported the conflict of interests and the board, prior to reporting the transaction to the Appointments and Remunerations Committee, approves the transaction.

The use of corporate assets

Directors may not make use of the Company's corporate assets nor use their position in the Company for their own financial benefit unless sufficient consideration has been made.

In exceptional cases, directors may dispense with the requirement to satisfy the consideration, but in this case, these benefits would be considered as indirect remuneration and should be authorised by the board on receipt of the Appointments and Remunerations Committee report.

Non-public information

The use of the Company's non-public information by directors for private purposes is only permitted if the following conditions are fulfilled: that the aforementioned information is not used in connection with company share acquisition or sales transactions,

that its use is not detrimental to the Company and that the Company does not have exclusive rights or a legal position that grants it similar powers over the information.

In addition, directors must observe the conduct regulations set out in the Stock Market regulations, and in particular, the regulations established in the Company's Internal Code of Conduct in relation to the Stock Markets.

Business opportunities

Directors may not take advantage of company business opportunities, either for their own interests or those of persons close to them, unless the Company has previously been offered the opportunity and has turned it down and the opportunity has been authorised by the board upon receipt of a report from the Appointments and Remunerations Committee.

Indirect operations

Directors will break their ties of loyalty with the Company if, knowing previously, they allow or do not reveal the existence of operations carried out by direct family members, or by companies where they hold executive posts or have a significant share in the Company, which haven't been submitted to the conditions and controls set out in the above articles.

The Directors' duty to inform

Directors must inform the Company of any shares they own in it, either directly or via companies in which they have a significant share. Likewise, directors should inform the Company of other shares that they own, directly or indirectly, and of shares that their direct family own, in accordance with the stipulations of the Internal Code of Conduct.

Directors must also inform the Company of all posts that they hold and the activities that they carry out in other companies or entities and in general, of any event or situation that could be relevant in their role as company director.

Included at the end of the TUBACEX Annual Report, there is a profile of the directors and the most relevant posts carried out in other companies are indicated.

Transactions with significant shareholders

The Board of Directors formally reserves knowledge of any of the Company's transactions with significant shareholders. In no case, will the board authorise the transaction if the Appointments and Remuneration Committee has not previously issued a report evaluating the transaction from an equal treatment of shareholders and market conditions point of view.

No transactions of this type were carried out during the year.

Transparency principle

The Board of Directors will reflect in its annual public information a summary of the transactions carried out by the Company with directors and significant shareholders. The aim of the information will be to inform on the overall number of transactions and the nature of the most relevant ones.

There is a public liability insurance policy for the Company's directors and executives.

B.6.-The Board of Directors' relationships

Relationships with shareholders

The Board of Directors will mediate through the necessary communication channels in order to better understand the proposals that the shareholders formulate in relation to the Company's management.

The board can organise information sessions on company and group performance for shareholders in the most relevant financial positions from Spain and other countries, via board members and in partnership with the members of the Company's top management that the board believes to be appropriate.

Public requests for the delegation of votes carried out by the Board of Directors or by any of its members should justify in a detailed way how the representative will vote if the shareholder does not give instructions and, where appropriate, should reveal conflicts of interest.

The Board of Directors will encourage the informed participation of shareholders at the AGMs and will adopt any means necessary to ensure that the AGM of Shareholders is able to effectively carry out its functions in line with the law and the By-Laws.

In particular, the Board of Directors will make an effort to provide shareholders with as much information as is legally possible before the AGM, and with all information that, even though it may not be, could be of interest and can be reasonably supplied. This information will address, with the greatest conscientiousness, the requests for information that the shareholders formulate prior to the AGM.

Relationships with institutional shareholders

The Board of Directors shall set up sufficient tools to assist the exchange of regular information with the institutional shareholders that make up part of the Company's shareholders.

On no occasion should the relationships between the Board of Directors and the institutional shareholders result in the shareholders being given any information that could put them in a privileged or advantageous position compared to the rest of the shareholders.

Relationships with the markets

The Board of Directors shall immediately inform the public about:

- *Relevant events that could influence the development of stock exchange prices in a noticeable manner.
- *Changes to the Company's ownership structure, such as variations in significant shares, union agreements and other means of coalition, which have come to their notice.
- *Substantial changes to the Company's governance regulations.
- *Bought-back share policies that the Company proposes to carry out under the authorisation granted at the AGM.

The Board of Directors shall adopt the necessary means to ensure that the six-monthly, quarterly and any other type of financial information that they are required to give the markets shall be put together with the same principles, criteria and professional practices as the annual reports and that it shall be as reliable as the annual reports. This information will be reviewed by the Audit and Compliance Committee.

Relationships with auditors

The Board's relationships with the Company's external auditors shall be channelled through the Audit and Compliance Committee.

The Board of Directors shall refrain from employing those auditing firms whose forecasted fees are greater than five percent of the total income during the last financial year.

The Board of Directors shall make public the overall fees that the Company has paid the auditing firm for services other than the audit.

In this respect, TUBACEX has published the fees paid to the auditing firm in its Annual Report since 1997.

Development of remuneration to auditing firms

Year	Auditor	Auditing fees	Other work	Total
2002	Deloitte & Touche	128,956.00	NO	128,956.00
2003	KPMG	118,000.00	NO	118,000.00
2004	KPMG	115,500.00	NO	115,500.00
2005	KPMG	135,000.00	NO	135,000.00
2006	KPMG	137,000.00	NO	137,000.00

The Board of Directors shall aim to prepare the definitive accounts, which are not previously certified, so that the auditor does not find discrepancies. When the Board considers that it should keep its judgement, however, it will publicly explain the content and extent of the discrepancy.

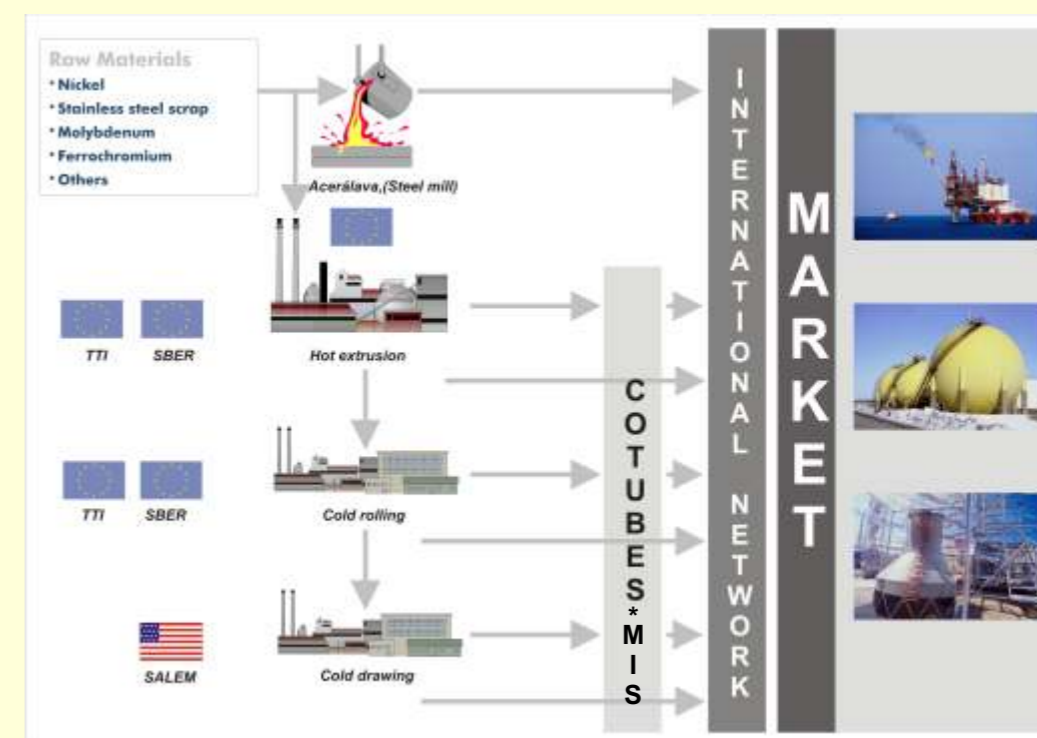
The Company has been audited on an ongoing basis every year since 1969.

Quality of the Auditors' Report

Year	Auditor	Quality of the Audit
2002	Deloitte & Touche	Unqualified
2003	KPMG	Unqualified
2004	KPMG	Unqualified
2005	KPMG	Unqualified
2006	KPMG	Unqualified

C.- LINKED TRANSACTIONS AND INTRAGROUP TRANSACTIONS

The only intragroup transactions to have been carried out in the TUBACEX Group during the year are those of a company that has a vertically integrated production process, as shown below. These transactions have been removed during the process of drawing up the consolidated financial reports.



There have been no transactions with the significant shareholders nor with the TUBACEX Group's managers or executives during the year.

In terms of conflicts of interest, the Board Code stipulates:

- *Directors should refrain from being involved in or interfering in deliberations that affect issues in which they have a personal interest.
- *A director will also be considered to have a personal interest when the issue affects his/her spouse, direct family members, or when the issue affects a company where the director or the aforementioned members of his/her family holds an executive post or has a significant share in the Company.
- *Directors shall not carry out professional nor commercial transactions with the Company, whether of a direct or an indirect nature, unless they have previously reported the conflict of interests and the board, upon receiving a report from the Appointments and Remunerations Committee, approves the transaction.

D.- RISK CONTROL SYSTEMS

Since the beginning, the TUBACEX Group has operated in a global market and as a multinational with a worldwide presence. As a result, the Group has progressively developed policies, procedures, tools and resources, both human and technological, to face up to the risks arising from its operations in this global environment. The necessary controls, both preventative and detective, have been put in place. By focussing on a continual improvement approach towards its corporate governance policies, the Group has emphasised to a greater extent the development of this process. Currently, the Group's reporting and control systems and its different business unit systems are oriented towards preventing and mitigating the potential affect of business risks.

Within the group of risks inherent to the TUBACEX activity, the Group's governance bodies, including the Board of Directors, the Audit and Compliance Committee, Corporate Finance Management, and the finance and administrative management teams in each of the business units, focus their control activity on the following key risks:

*Credit risk corresponding to sales made around the world. This is one of the Company's most important risks as it affects the total business turnover figure. The general policy is to hedge the largest number of operations with credit insurance for which the Group has entered into a number of annual agreements in this respect. Letters of credit or sufficient collateral guarantees cover the operations not included in the aforementioned agreements. The Group's general policy is to maintain minimum levels of exposure to credit risk. This policy has given rise to historic, exceptionally low non-payment percentages.

*Currency risk. The Group is exposed to currency fluctuations. There are two effects arising from product sales transactions and raw material purchasing transactions: On the one hand, there is a risk relating to the potential variation in the profit margin generated through the sale from the moment of sale to its collection and also there is another risk in the value of the products purchased in dollars, mainly raw materials. On the other hand, there is a risk related to the consolidation of results from group subsidiaries operating outside the euro zone (the closing rate method applies) whose financial statements are in dollars. The greatest exposure corresponds to US dollars, although there is also exposure in pounds sterling and Canadian dollars. The group's general policy is not to speculate with open positions, compensating inflows (collections) with outflows (payments) in foreign currency within the estimated terms; for those remaining open positions, having taken into account both the balance position and the risk taken on in the order book, exchange insurance agreements are entered into in order to mitigate the Group's exposure, always following a conservative approach.

*Interest rate risk. The loans and credit accounts entered into by the group are mainly indexed to the Euribor index and to a lesser extent to the USA Libor index, based on different contract and settlement periods, thus exposing the Group's financial cost to potential variations in interest rates. The group undertakes fixed rate hedging on interest rates in order to mitigate the aforementioned exposure.

*Risk of volatility in the price of raw materials. The group is exposed to variations in the price of the main raw materials used in the production of stainless steel, such as nickel, chromium, molybdenum and stainless scrap metal, whose price is indexed mainly in accordance with the cost of nickel. The most significant effect arises from the price of nickel, whose price is listed daily on the London Metal Exchange (LME) and its impact on the cost of scrap, as well as that of chromium and molybdenum. The group's general policy is to effectively purchase raw materials relating to both steel and tube orders at a fixed price, so that they are isolated from potential fluctuations prior to their collection.

In a more detailed way, the group applies the following control systems to the aforementioned risks:

D.1.- Credit risk

The TUBACEX group has developed a credit risk control policy that is basically summarised in the need to have the coverage of credit insurance companies in all sales and where there is no coverage, due to country risk or other circumstances, to use secure sales methods, such as letters of credit, documentary credit or bank guarantees, which are always on an irrevocable and first demand basis or advanced payments prior to the delivery of the material. Compliance with this policy means very close credit control in all transactions, in order not to slow down commercial activity and at the same time to guarantee that clients without cover or with exceeded cover are not included. It is also important to bear in mind that given the significant volume of transactions carried out with large distributors, the TUBACEX group's degree of coverage with insurance companies is usually around 80-85% of requests.

The specific credit control tools are integrated into the Group's transactional systems and allow the dynamic and on-line analysis of current and forecasted positions of our different clients' orders. These automated systems allow the analysis of our clients' future risk development through a combination of functions such as amount invoiced, orders pending invoicing, the future collection of both and the level of risk covered by insurance companies.

D.2.- Currency risk

As we have described in the previous chapter, the following controls are carried out in order to cover currency risk:

- Dynamic analysis (daily) of all actual and forecasted currency inflows and outflows, including both balance positions (clients and suppliers) as well as the expected future flows arising from orders and expected future payments for the purchasing of raw materials.
- Calculation of net exposure in all aforementioned periods and flow matching (implicit cover).
- Undertaking of exchange insurance in residual positions.
- In order to define the currency hedging strategies for imports and exports, an independent advisor is used who is not linked to any financial entity. Likewise, this advisor notes on-line the amounts and quotes of transactions to be carried out through the spot and forward sale and purchasing of currencies, or through variations in the exchange insurance terms.
- Based on the advisor's guidance, all transactions are quoted through different first-rate financial companies, directly buying or selling on the corresponding treasury desks at the best possible market price.

The group's general policy in this respect is to maintain the expected and generated commercial margin in each transaction and in this way no speculative action is carried out within the field of currency management.

Likewise, the fact that within the TUBACEX group there are companies outside the Eurozone, mainly in the U.S.A., means that due to the application of the "closing rate consolidation method", fluctuations in the euro/dollar quotation become a potential risk when integrating the aforementioned subsidiaries result into the Group's consolidated result.

D.3.- Interest rate risk

The TUBACEX group is exposed in different ways to fluctuations in interest rates depending on whether the group as a whole or individual subsidiaries are being considered. In terms of deposits, the Group's general policy in this respect is, in any case, to not be exposed to possible fluctuations in the equities market, therefore using only interest-bearing deposits.

In terms of funding, the group opts for variable interest rate funding, using fixed rate IRS or FRAS hedging. These hedging practices are used both in long term funding positions, as well as in those funding positions renewed on a yearly basis and which as a result, have an effect on the availability of funds. The hedging policies used are based on:

- General policy of variable/fixed exposure on an approximate 80/20 basis.
- Dynamic follow up both in terms of structured funding, as well as funding levels of working capital through credit accounts or other financial instruments.
- The use of financial hedging instruments quoted in organised markets (not using OTC transactions).
- Not undertaking derivatives transactions of a speculative nature.
- The use of an independent advisor to develop the hedging strategy.
- Market trading with world-class and reputable financial companies..

D.4.- Risk of volatility in the price of raw materials

The basic raw material is nickel, a metal that is listed on the "London Metal Exchange" (LME) and which has a high level of volatility due to the fact of being subjected to the tensions of supply and demand between producers and consumers, but at the same time, is also affected by the interference of investment funds that act speculatively on the price of this material. The appearance of China as a consumer and producer of stainless steel at a world level has increased to an even greater extent this material's levels of volatility. Likewise, as we have mentioned, molybdenum has seen significant price variations throughout the year.

As part of the conservative policies followed by the Company to mitigate this risk, the group carries out the following procedures and controls:

- Annual controls to guarantee supply in tonnes undertaken with the main suppliers at a world and national level.
- Undertaking dynamic analysis of the Company's exposure to the risk held by tube and steel orders purchased at a fixed price and the determining of raw material supply needs at Acerálava, the group's head of the line steelworks. This analysis includes both actual and forecasted data, bearing in mind both production periods at the steelworks and tube factories, as well as periods of exposure.
- Inherent hedging mechanism arising from the application of the Alloy Surcharge practice in a large part of steel and tube sales in Europe. This practice adjusts the price of an order or an invoice to the average value taken from the raw material components and based on the average amount for the two first months of the quarter prior to the order or invoice date.
- Setting up of offer validity correction mechanisms on all orders based on a fixed price, mainly in the U.S.A. and Asian countries.

D.5.- Conclusions

In concluding this section, it could be said that the group's risk control systems are summarised in the following basic actions:

- Conservative policies that only seek to protect the industrial and commercial margins obtained.
- Dynamic tools for the analysis of currency flows, exposure to credit risk and the impact of fluctuations on the price of raw materials.
- Independent advice for the design of financial hedging strategies.
- Always undertaking financial transactions in liquid and active markets with world-class and reputable financial companies.
- Pro-active management carried out by sales, purchasing and finance managers, oriented towards minimising risk and always governed by conservative policies.
- Independence in the fields of sales, purchasing and financial management.
- Attributions defined based on trading levels and type of transaction.
- Follow up of hedging policies defined by the Audit Committee.

E. - GENERAL MEETING OF SHAREHOLDERS MODE OF OPERATION AND DEVELOPMENT OF THE MEETING SESSIONS GENERAL MEETING

The Company has a specific Code on the way in which the AGM of Shareholders operates, in compliance with the recommendations made in the "Special Committee's Report for the Promotion of Transparency & Security in the Markets and in Public Companies", better known as the Aldama Commission, as well as for what is stipulated in Ministerial Directive ECO/3722/2003 dated 26 December concerning "Annual Report on Corporate Governance and other means of information used by public limited companies quoted on the stock exchange and other entities", as well as the requirements set out in Circular I/2004, issued by the National Stock Market Commission on 17 March 2004, on the "Annual Report on Corporate Governance by public limited companies listed on the stock market and other bodies that issue stocks negotiable on official secondary markets and other means of information used by public limited companies listed on the stock market". This regulation was submitted for approval to the AGM of Shareholders held in May 2004 and was unanimously approved.

The content of this regulation, whose full text is available to shareholders on the Company's website, can be summarised in the following way:

Quorum required to convene

The AGM of Shareholders, both ordinary and extraordinary, shall be considered to have been set up in a valid way with a minimum quorum of shareholders, both present and represented. They must be governed by current legislation and the By-Laws at all times, according to the nature of the different items included on the agenda.

As well as the AGM of Shareholders, the holding of the AGM will be considered to be valid and legal in its calling and makeup and authorised to deal with any issue, when the total share capital is present and those attending the meeting unanimously accept its taking place.

Arrangements for the adoption of company agreements

Agreements shall be adopted with the favourable vote of the majority of the capital with voting rights, both present and represented at the AGM, without affecting the quorum supported by the makeup and voting guidelines set out in the Law and in the By-Laws.

If there are proposals in relation to issues that the AGM is able to resolve without them being stated in the agenda, the Chair will decide the order in which they are put to the vote. In other cases, the adoption of agreements will be undertaken according to the agenda issued at the call to meeting.

The proposals put together by the Board of Directors will be put to the vote first and, if appropriate, those proposals put together by other persons will then be voted upon, according to the priorities that the AGM Chair sets out.

Once an agreement proposal has been approved, all of the other proposals relating to the same issue that are incompatible with the approved proposal will automatically be taken off the agenda, without them being put to the vote.

In terms of the adoption of agreements on issues included in the agenda, votes corresponding to all those shares present at the meeting, both in person and represented, will be considered in favour of the proposal, apart from those votes that correspond to shares whose owners or representatives inform the meeting, either in writing or in person, of their vote against the proposal, their blank ballot or their abstention.

If it is an agreement on an issue which is not included in the agenda, votes against the proposal will be considered to be those that correspond to all shares present at the meeting, both in person and represented, apart from those votes that correspond to shares whose owners or representatives inform the meeting, either in writing or in person, of their vote in favour of the proposal, their blank ballot or their abstention.

In order to determine the result of the votes, both the votes made at the meeting by shareholders and representatives present, as well as those that could be made by post, email or any other form of communication should be counted, providing that the shareholder casting the vote has fulfilled the identification requirements relating to the number of votes legally available.

Once the votes have been cast, the meeting will check that there are sufficient votes in favour of the proposal to reach the majority needed in each case. This will allow the Chair to declare the corresponding agreement proposal approved.

Once the result of the vote has been announced, the Chair of the meeting will declare the meeting closed and the session will rise.

In terms of voting rights and restrictions, the regulations set out in the By-Laws will be taken into consideration, which state that each share entitles the owner to one vote.

Information

Once the call to meeting has been made, the Company will make available to any shareholder the agreement proposals put together by the Board of Directors in relation to the agenda points, except when they are proposals that are not required by law or the By-Laws to be made available and the Board of Directors considers that there are justified reasons for not doing so.

The documentation that is available to shareholders will also be posted on the Company's website, from the date on which the meeting is called.

Shareholders may also request the free delivery of the complete text of the documents available to them.

Shareholders may also request information in relation to the items included on the agenda for the AGM up to seven days before the date of the meeting, as well as all information available to the public, which has been sent to the Securities and Exchange Commission since the last meeting. Directors are obliged to provide this information in writing, not during the meeting, but prior to the day on which it is held.

During the meeting, shareholders may verbally request information or clarification of the items in the agenda and the directors should respond to these requests during the same meeting, except when it is not possible to comply with this right to information, in which case they should reply to the request in writing within seven days following the close of the meeting.

The directors will not be obliged to provide the information requested by the shareholders if, in the Chair's opinion, publishing the information in this way will be to the detriment of the Company's interests. This exception shall not hold if the request is supported by 25% of the share capital.

Without affecting the shareholder's right to information referred to in the previous sections, shareholders, upon having their identity as such confirmed, shall be able to comment or make suggestions in relation to items on the agenda. They must do this through the shareholders' office or via the Company's website. The Board of Directors is not obliged to report on these suggestions during the AGM, but they can bear them in mind or grant the shareholder the right to interfere during the meeting.

The right to information can also be exercised via the entity's website where the existing communication channels will be stated, and if appropriate, the email addresses the shareholders can use for this purpose.

Right to attend

Shareholders who own the minimum number of shares set out by the By-Laws may attend the AGM of Shareholders. They must also have these shares registered in the Accounting Register of Accounting Entries and must hold on to these shares until the meeting takes place. If more than one share is required to attend the meeting, owners who have fewer shares than the minimum number may join together to achieve this minimum number and should appoint a representative.

Attendance cards will be issued through the entities holding the Accounting Registers and will be used by the shareholders as a document, both in terms of their representation at the AGM, as well as to give them access to the building where the AGM is being held.

The Board of Directors should attend the AGM and the Chair can authorise the attendance of anyone else that it deems to be appropriate, although the AGM can revoke this authorisation. The presence of all the members of the Board of Directors is not necessary for the meeting to go ahead.

Representation

Any shareholder who is entitled to attend the AGM can authorise someone else to represent him/her at the meeting. Representation should be stated in writing for each meeting without affecting what is stipulated in the law on family representation and the granting of general powers. On no occasion may any shareholder have more than one representative at the meeting.

Representation can be granted by postal or electronic mail, in application of the stipulations of Article 14 of the By-Laws for issuing votes by the said means, insofar as it is not incompatible with the nature of the representation.

It is always possible to revoke representation and it is understood that the attendance of the person who was to be represented at the AGM signifies revocation.

Electronic vote

The vote by means of electronic communication will be issued under a recognised electronic signature or some other kind of guarantee that the Board of Directors considers suitable so as to ensure the authenticity of the identity of the shareholder exercising the right to vote.

Ordinary General Meeting held on 25 May 2006 at the second call to meeting.

The following data show attendance at the meeting:

% Personal presence	% Representation	Total
6.18%	75.40%	81.58%

The following agreements were adopted during this meeting:

- First.-** A) Approve the individual and consolidated Annual Accounts corresponding to financial year 2005.
- B) Approve the Management Report.
- C) Determine the economic performance arising from the 2005 company year that represents an individual profit of 12,861,000 euros and a consolidated profit of 25,424,000 euros.
- D) Provide written proof that the aforementioned Annual Accounts, Management Report, Corporate Governance Report and Auditors' Report were also prepared on a consolidated basis, were presented in this way to the AGM and duly approved.

Approved by the favourable vote of the owners of 106,721,444 shares and the abstention of 1,759,987 shares.

Second.- Approve the Corporate Governance Report for the consolidated Tubacex Group.

Approved by the favourable vote of the owners of 106,721,444 shares and the abstention of 1,759,987 shares.

Third.- Apply the profits of financial year 2005 to provide the Legal Reserve with 1,286,090.64 euros; to pay out an ordinary dividend at the rate of 0.05351380 euros gross for each of the shares in circulation on 14 July 2006, involving the total amount of 7,116,200 euros; to pay out an additional dividend at the rate of 0.02293449 euros gross for each of the shares in circulation on 15 September 2006, involving the total amount of 3,049,800 euros.

Approved by the favourable vote of the owners of 107,943,044 shares, the opposing vote of 400 shares and the abstention of 537,987 shares.

Fourth.- A) Modify the wording of articles 10, 13, 14, 16 and 17 of the By-Laws. The main modifications refer to the removal of protective measures and the length of the term of office for board members, which is now six years. The Company website, www.tubacex.com, includes the final text of the By-Laws of Tubacex S.A.

Approved by the favourable vote of the owners of 102,968,081 shares, the opposing vote of 4,966,417 shares and the abstention of 546,933 shares.

The AGM was also informed about the modification of articles 9, 22 and 23 of the Board of Director's Code.

Fifth.- Appoint Sociedad KPMG Auditores S.L. as Auditors for the accounts of the Company and of its consolidated Group, with the exception of the companies located outside Spain, to carry out the audit for a period of one year starting on 1 January 2006 and to include review of the accounts for financial year 2006.

Approved by the favourable vote of the owners of 106,693,449 shares and the abstention of 1,787,982 shares.

Sixth.- Relieve Mr Manuel Guasch Molins and Mr. Gerardo Aróstegui Gómez, due to expiry of the statutory term as members of the Board of Directors, and appoint Mr. Manuel Guasch Molins, Mr. Gerardo Aróstegui Gómez and Mr. Luis María Uribarren Axpe as members of the Board for the statutory term of six years

Relieve "ATALAYA DE INVERSIONES, S.R.L." as Directors, at its own request, and appoint "ZOCO INVERSIONES, S.R.L." to the Board.

Approved by the favourable vote of the owners of 106,073,906 shares, the opposing vote of 655 shares and the abstention of 2,406,870 shares.

Seventh.- Authorise the Board of Directors to proceed with the derivative acquisition of stocks (share buyback) of "TUBACEX, S.A." shares by TUBACEX, S.A during the maximum period of 18 months, nullifying any unimplemented part of what was agreed at the AGM held on 19 May 2005.

These acquisitions shall be carried out within the following restrictions:

1.- That the total number of shares bought by the Company and its subsidiary companies shall not exceed 5% of the total share capital of TUBACEX, S.A.

2.- That it is possible to put an unavailable reserve in the liabilities that is equivalent to the amount of shares bought.

Shares should be bought at the listing price of the day on which the respective shares are bought, or if the share has not been listed on this date, at the listing price of the last day prior on which it was traded on the stock exchange.

Likewise, the Board of Directors is authorised to dispose of the Company's bought shares at the listing price, as is stated in the above paragraph.

Approved by the favourable vote of the owners of 107,853,530 shares, the opposing vote of 28,400 shares and the abstention of 599,501 shares.

Eighth.- Authorise the CEO and Chair of the Board of Directors, Mr. Alvaro Videgain Muro, and the Secretary and Legal Adviser, Mr. Pascual Jover Laguardia, to the greatest extent permitted by law, jointly and individually, so that either of them, on behalf of the Company, can appear before a notary in order to conclude, by raising what is hereby contained to the status of a public deed, all the aforementioned agreements, also fully enforcing these agreements, requesting all relevant reports, certificates, subsequent procedures in accordance with the Joint Stock Company Act, Mercantile Register Regulations, Stock Exchange Regulation Act and any other applicable legal provisions and completing all necessary requirements in order to grant all documents issued or public deeds raised full legal validity, including amendments to the aforementioned documents and requesting all relevant documents or entries from corresponding legal Registers.

Approved by the favourable vote of the owners of 107,944,768 shares and the abstention of 536,663 shares.

Others

The contents of this report, along with the rest of the information relating to Corporate Governance are available on the Company's website (www.tubacex.com) within the section "Information for Shareholders and Investors" as stated in circular 1/2004 issued by the Spanish National Stock Market Commission on 17 March 2004 concerning the "Annual Report on Corporate Governance by public limited companies listed on the stock market and other bodies that issue stocks negotiable on official secondary markets and other means of information used by public limited companies listed on the stock market".

The Company has set up communication channels so that the information disseminated by the markets can be circulated in a fair and symmetrical way. To this effect, all issues defined in the said Spanish National Stock Market Commission circular have been included on the website. In addition, the channels available to shareholders for receiving information remain the same:

E-mail: oficina.accionista@tubacex.es
Tel.: (94) 671.93.00
Fax: (94) 672.50.62
Postal address: Tres Cruces, 8 - E-01400 Llodio (Alava) Spain.

F.- DEGREE OF FOLLOW UP INTERMS OF GOOD GOVERNANCE RECOMMENDATIONS

As can be seen throughout the Annual Report on Corporate Governance, the TUBACEX Group follows the recommendations made in terms of good governance in full and will continue to incorporate all aspects that favour transparent management into its actions.

G.- OTHER INTERESTING INFORMATION

Early in 2007, Mr. Antonio Fernández, General Manager of Ahorro Corporación Financiera S.V., S.A. left the Board of Directors as a result of the breakdown of the parasocial agreement which had existed up until that time between Zoco Inversiones S.R.L. and Atalaya Inversiones S.R.L. that governed the presence of the latter two on the Board of Tubacex S.A.

In the same way, Atalaya Inversiones S.R.L. was appointed by co-option as a member of the Board of Directors of Tubacex S.A. as a Proprietary Director. It is represented by Mr. Antonio Pulido Gutiérrez.

PROFILE OF THE MEMBERS OF THE BOARD OF DIRECTORS

JOSÉ ANTONIO ARDANZA GARRO.

A graduate in law (University of Deusto). He commenced his professional career as Director of the Legal Consultancy Section at the Caja Laboral Popular savings bank. In 1979 he was elected Mayor of Mondragón, and in 1983 he was appointed Prime Minister of the Territory by the Regional Government of Gipuzkoa province. In January 1985 he was appointed Lehendakari (President) of the Basque Government, and held this post through successive elections until January 1999. He has taken up his professional activity once more, and is now Chairman of Euskaltel S.A. He has been a member of the board at TUBACEX since 1999.

GERARDO ARÓSTEGUI GÓMEZ.

A graduate in Business Management and Economics (University of Deusto). He commenced his professional career at TUBACEX S.A., where he held a number of posts until promoted to Assistant General Manager. He has been Assistant General Manager of the BBV bank. In 1985 he joined PLUS ULTRA as Board Member / General Manager and became Executive Chairman of the Company in 1990. He is currently Executive Chairman of Aviva Grupo Corporativo and Aviva Vida y Pensiones, and Chairman of Aseval, Bia Galicia, Unicorp Vida, Caja España Vida and General Vida. He is also a member of the Advisory Board of the Directorate-General for Insurance and Pension Funds and a Board Member of the Insurance Clearing Consortium, of Nacional de Reaseguros and of UNESPA. He has been a member of the board at TUBACEX since 1991.

ALEJANDRO ECHEVARRÍA BUSQUET.

A graduate in Business Studies (ESTE). Most of his professional career has involved the management of media companies. He has been Managing Director of the Grupo Correo (nowadays Vocento) and sits on the Board of Directors of the Group and of its subsidiaries "Diario El Correo", "El Diario Vasco", "El Diario Montañés" and "ABC". He has been Chairman of the Association of Spanish Newspaper Publishers (AEDE), is Chairman of Telecinco and of the Commercial Television Union (UTECA) and a member of the Board of Directors of several listed companies. He has been a director of TUBACEX since 1999.

ANTONIO FERNÁNDEZ LÓPEZ.

A graduate in Business Management and Economics (Complutense University of Madrid). He has dedicated most of his career to the field of banking and occupied executive positions in the Banco de Financiación Industrial (Vizcaya Group) and Banco Atlántico. He is currently Chairman of Aurgi and BJC and a member of the board of several companies, including Elcano, Famosa and Cervezas Alhambra. He is also a member of the board and CEO of Grupo Ahorro Corporación and occupies other executive positions in the companies in this Group. He has been a director of TUBACEX since 2004.

JUAN ANTONIO GARTEIZGOGASCOA IGUAIN.

A graduate in Economics (UPV). He holds a Master's in Quantitative Management (from the San Sebastián Higher Business School) and a Master's in Tax Consultancy (from the Madrid Business Institute). He has worked at Helisold S.A. and TALDE S.A., a venture capital company, and has been a board member of a number of the investee companies in this Group. In 1987 he founded FORETAX S.A., a company providing tax planning and consultancy, of which he is the main partner. He lectures on the Tax Consultancy Master's course at the University of Deusto. In 2005 he was appointed Deputy Chair of the Board of Directors of TUBACEX. He has been a director of TUBACEX since 1994.

MANUEL GUASCH MOLINS.

A graduate in law (University of Valladolid) and in Business Studies and Economics (University of Deusto). He has worked in a number of public administration posts, and was appointed the Under-secretary for Trade. In the business sector, he has chaired the Board of Directors at FASA Renault S.A., and Azucarera Ebro Agrícolas S.A. He is currently Chairman of Alimentos Naturales S.A., Renault Vehículos Industriales S.A. and Renault Trucks S.A. and a member of the Board of Renault España S.A. He has held a number of teaching-related posts in both Spain and abroad. He has been a member of the board at TUBACEX since 1977.

JUAN RAMÓN GUEVARA SALETA.

Lawyer. From 1985 to 1991 he was the Basque Government Minister for the Presidency, Justice and Autonomous Development. During this period he also held the positions of Representative of the Basque Autonomous Community in the Conference of Local and Regional Authorities of the Council of Europe, a member of the Standing Committee and the Bureau of the Assembly of European Regions and Joint President of the Euskadi-Aquitaine Interregional Cooperation Committee. He left politics in 1991 and returned to his law practice. He is an honorary member of the International Institute for the Sociology of Law in Oñati and of the Basque Institute of Criminology. He has been a director of TUBACEX since 1994.

PEDRO LUIS URIARTE SANTAMARINA.

A graduate in Law and in Business Management and Economics (University of Deusto). He started his career in General Electric and then moved to Crown Cork Company. He was appointed Managing Director of BBV in 1994 and in 1999 became Managing Director and Vice-president of the Board of Directors of BBVA. He has also been Vice-president of Telefónica S.A. and is currently Chairman of Economía, Empresa, Estrategia. He is a member of the Governing Board of the University of Deusto, sits on the board of several companies and cooperates with several social and business initiatives. He has been a director of TUBACEX since 2004.

D. LUIS M^o URIBARREN AXPE.

Born in Arrasate-Mondragón (Gipuzkoa), he took part in the entire process of creating and later consolidating the CONDESA Group, an industrial conglomerate made up of 14 production plants dedicated to manufacturing welded steel tubes and other production items, located in 6 different countries, 5 of which belong to the European Union. Since 1992 he has held the position of Managing Director of the said Group. During the 1988-1996 period he was a member of the Executive Committee of the Board of Directors of Banco de Vitoria. He has been a member of the board at TUBACEX since 2006.

ÁLVARO VIDEGAIN MURO.

A graduate in Law and in Business Management and Economics (University of Deusto). He has spent practically his entire career at TUBACEX, which he joined in 1982. He was appointed Managing Director and General Manager of the Company in 1992, and became Chairman of the Board of Directors in 1993. He has been a member of the board at TUBACEX since 1992.