CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

(Expressed in thousands of Euros)

(Translation from the original in Spanish)

APPENDIX VI
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	2003	2002
Funds generated from operations		
Consolidated profit for the year	6,044	16,306
Participation of minority interests in the profit for the year	-	101
Depreciation (note 4)	13,918	15,104
Provisions for fixed assets (note 5)	19	14,086
Amortisation of goodwill on consolidation (note 3(a)(i))	1,139	1,171
Provision for liabilities and charges	856	1,536
Deferred expenses	15	556
Losses on disposal of fixed assets	551	1,379
Reversal of provisions for liabilities and charges (note 12)	(720)	(437)
Profit on disposal of fixed assets	(48)	(360)
Capital grants taken to income	(191)	(554)
Capitalised credit facilities (note 5)	(1,293)	(25,830)
	20,290	23,058

This Appendix forms an integral part of note 20 to the consolidated annual accounts, in conjunction with which it should be read.

TUBACEX, S.A. AND SUBSIDIARY COMPANIES
2003 CONSOLIDATED DIRECTORS' REPORT

(Translation from the original in Spanish)

It is important, when putting 2003 into perspective for the Tubacex Group, to refer to the overall economic environment in which the Group has carried out its activities.

Economic activity in 2003, particularly during the first six months, suffered from the effects of economic and geopolitical uncertainty deriving from the ongoing conflict in Iraq, which gave rise to a downturn in economic activity that prevailed throughout 2002. In this regard, the first months of 2003 saw low levels of activity in many countries throughout the world, which delayed the expected economic recovery.

As the year progressed, expectations of an upturn in the worldwide economy improved, boosted by a reduction in international tension, signs of growth in the U.S. economy, enhanced corporate confidence and the positive trend in stock markets after two years of marked decline. In general terms, the prolonged situation of uncertainty throughout 2002 and the first half of 2003 considerably slowed down the activation and consolidation of industrial investment processes worldwide, which are always in need of prospects of sound sustainable economic growth. Furthermore, geopolitical uncertainty illustrated by the risk of terrorist attacks in western countries continues to be a factor to be taken into account in 2004.

On a global scale, the world economy grew by 3.2% in 2003, in line with expectations, after three years in which final growth fell below initial forecasts, and leaving behind the period of weakness initiated in 2001. This gradual improvement has been led by growth in countries such as the U.S.A., China and Japan, whereas the European Union's performance has been disappointing, with lower growth than in 2002.

The structural problems shown to be present in the main European economies over the last two years, exacerbated by the appreciation of the Euro against the Dollar (20%) and the main Asian currencies (10% against the Yen and 20% against the Chinese and Korean currencies, which are closely linked to the U.S. Dollar), have given rise to growth of just 0.8% in the EU, below the 1% recorded in 2002.

The negative evolution of its main economies, Germany, France and Italy, with practically zero growth, has been a determining factor in this trend. The aforementioned strengthening of the Euro the export sector of the EU accounted for a 0.7% negative contribution to overall growth high public deficit, the inflexibility of the labour market (employment growth remains negligible), together with increases in the prices of oil and principal raw materials, are all key factors that explain the low level of growth.

Positive trends in the market include low inflation, which remains under control and keeps interest rates at a minimum (2%), the recovery of the securities markets and the improvement in corporate confidence. This latter factor, confirmed by positive growth trends in the second half of the year, hints at a brighter economic future and better prospects in sectors related to industrial investment. The most encouraging factors to date have been increased internal demand, the recovery of private spending and a more optimistic investment environment. In this regard, the fall in investment stood at 0.4% in 2003, compared to 1.8% in the prior year.

The recovery of the German economy, which is where the poorest results have been recorded, is key to instilling confidence among European companies. The aforementioned improvement in the world economy, together with the reforms undertaken by the German government of its labour and tax systems and other areas related to public deficit, will be determining factors in this recovery process. Until these and other factors are consolidated, such as the upcoming incorporation of the Eastern European countries into the EU and the return to competitiveness in exports, it will be difficult for the EU's economy to significantly take off again.

Average growth in the Eastern European countries stood at 3.1%, with Russia showing growth of 6%, which confirms the positive trend in the economies of these countries in 2003.

The United States economy, which grew by almost 3%, was a key factor in the economic growth recorded in 2003. Unlike 2002, when growth (2%) was focused on public and private spending and closely associated with tax and monetary incentives (tax rebates and lower interest rates), in 2003 these variables were gradually replaced by investment in capital goods and the strength of the export sector, based on a very weak dollar. Inflation, on the other hand, remained relatively low (2.1%), which kept interest rates at historically low levels (1%).

Despite the gradual upturn in the American economy in 2003, with increasingly high inter-quarter growth rates, it still has a record sales deficit, high household borrowing and elevated public debt (4.9% of GDP). Employment has grown by a mere 0.8%, which has not prevented unemployment from rising to 6.1%. At this point in time, the doubts surrounding the actual ability of the American economy to create employment are the main concern facing the sustainability of these promising growth rates.

With regard to Asian economies, Japan stands out with 2.7% growth, boosted by the recovery of its investments and the slowing down of the deterioration of the labour market. Chronic structural factors such as public deficit (7.4% of GDP), reforms that need to be made to its financial, corporate and labour systems, and deflation are still a heavy burden to bear for an economy wishing to make a recovery.

Among other Asian countries, special mention should be made of the growth figures recorded in China (7.5%) and India (5.6%). The case of China is particularly significant and confirms the dynamism of its economy since joining the World Trade Organization, with strong growth in its main macroeconomic variables. Most notable with regard to our business were the sharp increases in the production, demand and imports of iron and steel products. These factors, together with the growth in internal demand, have caused tension in the markets for the main raw materials used in the iron and steel industry and in shipping freight prices.

With regard to financial markets, given the permanent nature of significant geopolitical uncertainty throughout most of the year and the aforementioned delay in the recovery of global economic activity, the Federal Reserve and the European Central Bank reduced interest rates to all-time lows of 1% and 2%, respectively. If levels of corporate confidence in Europe, and particularly in Germany, do not improve, European interest rates could be further reduced.

The situation in the foreign currency markets in 2003 was also detrimental to the interests of European exporters, since the Euro appreciated by more than 20% against the U.S. Dollar (added to a 14% gain in 2002) and 10% against the Yen (6% in 2002). This trend was, and continues to be, particularly harmful to the competitiveness of European companies, as it directly affects exports to the U.S.A. and indirectly favours emerging economies in Asia and Eastern Europe, which have much lower labour costs and currencies that have not lost ground to the Dollar.

In short, uncertainty brought about by the risk of large-scale terrorist attacks, hesitation to undertake structural reforms in the European labour market, the deterioration of the export sector due to the changing market situation, and doubts concerning employment growth in the U.S.A. are currently the biggest obstacles to worldwide economic recovery.

After three years of decline, the stock markets have begun to recover subsequent to the end of the war in Iraq, closing the year with important gains, which in the case of the Spanish stock exchange stood at 25% (28.8% in the IBEX exchange and 27.4% in the IGBM). Nevertheless, the significant regional differences that exist and the risk of terrorist attacks with a notable impact on an increasingly global economy have given rise to considerable volatility that cannot be ignored in the performance of the principal global market.

The iron and steel sector has not been immune to these marked differences in economic growth between the diverse world economies. In this regard, and following the trend observed in 2002, China stands out from the rest, with spectacular growth in consumption over 25% in stainless steel, together with the rest of the Asian market. This unprecedented growth, which has come before any significant increase in consumption in Europe and the U.S., has given rise to considerable tension and scarcity in the supply of key iron and steel products and the raw materials necessary for their production. This situation, combined with improved prospects in the European and American consumer sectors suggest a change in the weakness experienced in the sector in 2002 and 2001. Confirmation of this can be seen in the price rises announced by the main iron and steel producers, which are expected to continue throughout 2004.

Closely linked to tensions described above is the evolution of prices of the basic raw materials used in our business (nickel and stainless steel scrap metal), with an average increase in prices of 42% in 2003, compared to a 14% rise in the prior year. Both of these figures refer to average nickel quotations on the London Metal Exchange (LME). In the economic situation described above, in which economic uncertainty has been a burden throughout most of the year on the recovery of the levels of activity and investment in the principal industrial and consumer sectors using our products, these price increases have not been entirely passed on to the end customer.

Oil prices rose in 2003 as a result of the instability in the Middle East, the weakness of the Dollar, restrictions imposed by the OPEC and increased demand. The price of the Brent barrel averaged US$28.83 in 2003 compared to US$25.02 in 2002. This upward trend has continued in the first quarter of 2004 to reach all-time highs. Under these circumstances, and faced with restrictions imposed by the OPEC, the short-term situation hints at prices in excess of US$33/barrel. In addition to the above, the current low level of American reserves is also a factor to be taken into account.

Lastly, at industry level, key end users of our products, such as electricity, oil and gas producers and the chemical and petrochemical industries, continued to suffer from the uncertain environment described above. In this regard, the trend in 2003, with the exception of Asia, has been that of a significant slowdown in corporate decision-making regarding growth and investment, with investors awaiting definitive confirmation of a turnaround in macroeconomic growth. Instability in the currency markets and sharp increases in the prices of raw materials over a short space of time have also hindered any recovery in demand.

In this context of incipient economic recovery still held back by uncertainty, and with the areas of highest growth coinciding with exposure to the depreciation of the Dollar, the results of the Tubacex Group, a net exporter with Dollar sales of approximately 25%, have been negatively affected, with operating profit, net profit and cash flow down on the prior year by 40.6%, 62.9% and 35.1%, respectively, together with a 9.7% drop in total sales.

Section 1 of this report Performance of the Group's business in 2003 provides a detailed description of the key factors of the 2003 results, which outline the fall in demand of our products in the traditional markets of Europe and the United States a reflection of the overall drop in demand in these areas and the increase in sales in Asia closely linked to the dynamics of the economy in this part of the world, which has not entailed the desired levels of profitability mainly due to the poor exchange rate against the Dollar and the sharp increase in the price of raw materials over a short space of time.

Furthermore, Section 4 of this report Outlook for the Group's business refers to two key aspects of the development of the Group in the years to come: the implementation of a Competitiveness Plan, which is currently under way and has identified potential for improvement in costs and productivity in the Group's main business units, and the introduction of a new Strategic Plan in 2004 with a view to responding to the current prospects of improvement in the global demand for tubes through a sales approach focusing on profitability and customer attention. Both of these projects are complementary and aim to improve the Group's competitiveness and efficiency in the main areas of manufacturing and marketing, thereby increasing operating margins.

As a key starting point on the road to achieving the aforementioned goals, reference must once again be made to the high level of integration of the different Group units. This combination of efforts and people has made it possible for the Group to attain a global market share of over 20%, despite the downturn in the demand for our products that has been affecting the sector since the second half of 2002. In this regard, our efforts in the coming years will continue to focus mainly on projects aimed at maximising profitability and competitiveness in all the units of a fully integrated and consolidated industrial group, based on financial and equity soundness, enabling us to undertake ambitious projects directed towards enhancing internal efficiency at our plants and external growth opportunities that may be of interest with regard to improving the Group's profitability.

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

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

With regard to the section relating to shareholder remuneration, dividends will continue to be paid this year, as has been the case in the last four years. In any case, remuneration will be paid in the form of a dividend with a charge to unrestricted reserves, as described in section 9 of this report.

1. PERFORMANCE OF THE GROUP'S BUSINESS IN 2003

In order to carry out a detailed study of the evolution of the main business variables during 2003, we will analyse the variations in the main entries of the consolidated statement of profit and loss together with the most significant events deriving from the Group's financial, commercial and industrial activity.

1.1 Analysis of the evolution of the Group's statement of profit and loss.
1.2 Financial activity.
1.3 Commercial activity.
1.4 Industrial activity.

1.1. *Analysis of the evolution of the Group's statement of profit and loss*

For comparative purposes, the main captions of the consolidated statements of profit and loss for 2003, 2002, and 2001 are as follows:

			(in millions of Euros)			
	2003	%	2002	%	2001	%
Net sales	*258.92*	*100.00*	*286.70*	*100.00*	*286.67*	*100.00*
Other income	*1.67*	*0.64*	*1.31*	*0.46*	*1.01*	*0.35*
Increase/(decrease) in stocks	*9.18*	*3.55*	*-2.72*	*-0.95*	*-6.53*	*-2.28*
Total operating income	*269.77*	*104.19*	*285.29*	*99.51*	*281.15*	*98.07*
Purchases and materials consumed	*-129.05*	*-49.84*	*-123.29*	*-43.00*	*-128.15*	*-44.70*
Personnel expenses	*-69.41*	*-26.81*	*-75.17*	*-26.22*	*-71.85*	*-25.06*
External and operating expenses	*-48.24*	*-18.63*	*-51.17*	*-17.85*	*-48.73*	*-17.00*
Gross operating profit	*23.07*	*8.91*	*35.66*	*12.44*	*32.42*	*11.31*
Changes in trade provisions	*2.22*	*0.86*	*-1.43*	*-0.50*	*-1.66*	*-0.58*
Amortisation and depreciation	*-13.92*	*-5.38*	*-15.10*	*-5.27*	*-13.87*	*-4.84*
Net operating profit	*11.37*	*4.39*	*19.13*	*6.67*	*16.89*	*5.89*
Amortisation of goodwill on consolidation	*-1.17*	*-0.45*	*-1.17*	*-0.41*	*-1.17*	*-0.41*
Financial income	*0.84*	*0.32*	*1.02*	*0.36*	*2.04*	*0.71*
Financial expenses	*-4.14*	*-1.60*	*-4.77*	*-1.66*	*-8.03*	*-2.80*
Exchange gains	*4.63*	*1.79*	*4.53*	*1.58*	*6.77*	*2.36*
Exchange losses	*-4.49*	*-1.73*	*-5.60*	*-1.95*	*-4.66*	*-1.63*
Profit on ordinary activities	*7.04*	*2.72*	*13.14*	*4.58*	*11.84*	*4.13*
Net extraordinary income/(expense)	*-0.37*	*-0.14*	*-20.69*	*-7.22*	*3.04*	*1.06*
Consolidated profit/(loss) before income tax	*6.67*	*2.58*	*-7.55*	*-2.63*	*14.88*	*5.19*
Income tax	*-0.62*	*-0.24*	*23.96*	*8.36*	*0.71*	*0.25*
Consolidated profit for the year	*6.05*	*2.34*	*16.41*	*5.72*	*15.59*	*5.44*
Profit attributed to minority interest	*-0.00*	*-0.00*	*-0.10*	*-0.03*	*-0.08*	*-0.03*
Net profit attributed to parent company	*6.05*	*2.34*	*16.31*	*5.69*	*15.51*	*5.41*

The most significant trends in the consolidated statement of profit and loss are as follows.

- Sales are down 9.7%. In addition to the weak demand in Europe and the US (see point 1.3, evolution of sales by geographical area) it is important to consider that excluding the effect of sales contributed by Altx Inc. in 2002, a dormant company in 2003, this drop would amount to 5.5% in Euros and 3.5% in the volume of tons sold.

- The decline in value of the Dollar against the Euro (20%) and the Pound Sterling (10%) are also highly significant factors behind this decrease. The drop in value of group sales made in Dollars, compared to the average exchange rate of sales carried out in 2002, amounted to approximately Euros 7 million, or 2.5% of the value of sales in 2002.

- The cost of materials consumed, which rose from 43% in the prior year to 49.8% this year, is a clear reflection of the sharp increase in the price of raw materials, which in the case of nickel exceeded 40%. Within the context of the business situation in 2003, it was impossible to pass on the full effect of this price rise to the end customer. At the same time, this substantial increase in prices has offset any advantages obtained from the decline in value of the Dollar against the Euro.

- The abovementioned factors - a drop in sales coupled with higher prices of raw materials - are the determining factors behind the fall in the Group's net profit for 2003.

- Personnel expenses have decreased by 7.7%. Excluding the Altx Inc. effect, this drop amounted to 1% and is indicative of the policies behind improving productivity and efficiency in the Group's main production plants.

- The approximately 5.7% drop in the Group's other operating expenses is evidence of the cost curbing policies applied throughout the year, which will continue to be implemented in specific projects Competitiveness Plan in the coming years.

- The Euros 0.63 million reduction in financial expenses during 2003 (13.2%), coupled with the decrease recorded in 2002 (40.6%), is a result of the gradual reduction of the Group's financial debt (see point 1.2 of this report), a general policy applied to the majority of its business units, and low interest rates.

- No significant extraordinary profit or losses have been recorded in 2003. In 2002, extraordinary losses were almost entirely attributable to the Euros 20 million write-down of Altx Inc. Assets.

- Income taxes for 2003 include Euros 2.1 million relating to the capitalisation of tax credits (Euros 25.8 million in 2002).

1.2 *Financial Activity*

Despite the evolution of the consolidated statement of profit and loss as explained above, the Group managed to generate funds in excess of Euros 21 million in 2003, a reduction of 35.1% compared to the Euros 32.58 million generated in the prior year, but which confirms the Group's capacity to generate cash flow in the face of difficult business conditions.

The Group's shareholders' equity amounted to approximately Euros 174 million at the end of 2003, representing 51% of total liabilities (50.9% in 2002). This high level of capitalisation, with a net debt to shareholders' equity ratio of 50.7%, significantly exceeds the average of the main companies in the iron and steel sector, which generally tend to have higher debt ratios.

The value of the Company on the stock exchange rose by 13.6% with shares increasing from Euros 1.25 per share at the close of 2002 to Euros 1.42 at the close of 2003. The maximum price quoted during the period was in December when for several days shares reached a maximum price of Euros 1.46. The minimum quoted price was Euros 1.13 per share on 11 March.

During the year, a total of 59.85 million shares were traded on the stock exchange, 7.48% lower than the 64.69 million traded in 2002.

This figure signifies a rotation of 45.01% of the total number of the Company's shares, amounting to 132.98 million shares. Effective trading for the year totalled Euros 79.10 million, 18.14% lower than the prior year when the value of shares traded reached Euros 96.63 million. The Company's market capitalisation at 31 December 2003 amounted to Euros 188.83 million, a 13.6% increase on the prior year-end figure of Euros 166.22 million

1.3. *Commercial Activity*

Consolidated group sales reached Euros 258.92 million in 2003, a drop of 9.7% compared to the prior year. The effects of volume and price on this variation have been discussed in point 1.1 above. However, in order to take into account the geographical aspect of business performance for the year as commented previously, details of group sales by geographical market for the last three years are as follows:

	(in millions of Euros)			
	2003	2002	2001	2003/2002
Europe	178.33	184.95	185.16	- 3.58%
US and Canada	42.19	73.99	66.91	- 42.98%
Other countries	38.40	27.76	34.60	+ 38.35%
Total sales	258.92	286.70	286.67	- 9.69%

From the above breakdown, it can be seen that in 2003, 69% of sales were destined for the European market, 16% for the US and Canada and 15% for other countries. In 2002, this distribution was 64%, 26% and 10%, respectively. The most significant factors behind this evolution are as follows:

The substantial reduction in activity in the North American market, which was logically affected by the weakness of the Dollar against the Euro as commented earlier. Sales of Euros 83 million reached in 2000 have not been exceeded since, however, the current situation of this market indicates a gradual recovery during 2004.

In 2003, the European market declined by approximately 3.5%, mainly in cold laminated products, as a result of the widespread slowdown of the economy across the European Union. Nevertheless, sales in this market comprise almost 70% of total sales, thus confirming the Group's solid commercial positioning in this market. As the first signs of the recovery of economic growth in Europe begin to consolidate, moderate growth is forecast for this segment of our activity.

The 38% rise in net sales to the rest of the world is directly attributable to the high rates of growth in Asia and the group's commercial efforts to expand its presence in new markets. This drive to gain a foothold in the principal Asian countries, particularly China, will be a constant feature over the coming years.

The outlook for 2004 is currently healthy as regards the rise in activity forecast for all the markets in which the Group operates. Nevertheless, the weak performance of the US$ against the Euro, continually in excess of 1.20 (an average of 1.13 in 2003), makes it extraordinarily difficulty to profitably take advantage of the increases in activity in the Asian and North American markets.

1.4. *Industrial Activity*

During 2003, the Tubacex Group continued the strategy initiated in prior years of maintaining a strict policy of prudent investment, based on an exhaustive analysis and always in terms of expected return on proposed investments (payback in under 4 years). As a result of the application of these criteria, investments in plant and machinery in 2003 amounted to approximately Euros 6.8 million compared to the Euros 11.6 million invested in 2002.

New planned investments for the Group in 2004 total Euros 12 million, in addition to those pending from prior years.

The most significant investments forecasted for the year are those considered to be strategic and directly related to the Competitiveness Plan. These investments are focused on Tubacex Tubos Inoxidables S.A., SBER AG European business units involved in the production of seamless stainless steel tubes and in Acería de Álava, S.A., and amount to approximately Euros 5 million. These investments are geared towards considerably increasing the productivity of extrusion presses, cold lamination plants and the heating capacity of steelworks to maximise the number of castings,

And improving the forging and lamination process of special steel round products, and will ensure improved productivity and capacity in the group's key plants without increasing personnel or fixed costs through a limited volume of investments The continual drive to cut costs and increase capacity and productivity means that our plants are among the most competitive of their kind in the world..

Of the almost Euros 7 million in investments remaining, in line with the amounts invested in 2003, a special mention should be given to those aimed at improving the efficiency of the key installations of the Group's different industrial plants through the renovation and maintenance of equipment, tried and tested procedures for preventive installation maintenance, continuous improvement and reengineering of production processes, improvements in the quality and added value of our products and strict compliance with environmental legislation.

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

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

The average headcount of the Tubacex Group in 2003 was 1,485 personnel, an average reduction of 19 staff.

2. GROUP SITUATION

In evaluating the Group's situation, we consider that in general terms it has reflected the difficult market conditions which dominated 2003, which in turn characterised a year of significant change for the sector and a notable reduction in levels of activity. We refer to the analysis of the Group's business in section 1 above. Accordingly, this year we can congratulate ourselves once again on the solidness of the different business units in tackling the increasingly difficult challenges which the Group assumes with composure and flexibility.

The Tubacex Group is perfectly structured in all areas of activity, i.e. strategic, industrial, commercial, economic, financial and social areas. Moreover, the Group directs its efforts towards improving competitiveness and cutting costs as well as the launch of the new Strategic Plan for the coming years, which will guarantee future growth and profitability. Each day, we strive to achieve excellence when dealing with our customers and suppliers, to ensure that all Group employees identify with a set of common values and goals, and to continually pursue ways to create value for our shareholders.

3. SIGNIFICANT EVENTS FOR THE GROUP SUBSEQUENT TO YEAR END

No significant subsequent events have occurred which require special mention.

4. OUTLOOK FOR THE GROUP'S BUSINESS

Having carried out an evaluation of 2003, we will now proceed to briefly evaluate what we understand could be the main trends of economic activity for 2004 and subsequent years:

Worldwide economic growth is forecast to exceed 4% in 2004 with gradual acceleration as the year progresses. The main thrust behind this growth will be China, followed by the US and Asia, whereas the EU will struggle to exceed 2% - half the worldwide growth rate hindered by pending structural reforms and an export sector under threat from an overvalued Euro.

Against this backdrop, general international monetary policy hints at a rise in interest rates in the US once conclusive details of employment growth become available. The current fragile state of economic growth in Europe could lead to limited short-term reductions in interest rates by the European Central Bank, which will however tend to rise in the medium term as economic activity in the main European economies Germany, France and Italy - consolidates.

The US$/Euro exchange rate will be heavily dependent on the continued existence of an extremely high trade deficit with the US. Nevertheless, the confirmation of forecast growth in the US, with the ensuing impact on the stock markets, the aforementioned rise in interest rates, the gradual improvement in the Japanese economy together with weak European exports should progressively bring us from current levels over 1.20 US$/Euro - to those closer to the estimated value of Purchasing Power Parity (PPP) 1.13 US$/Euro.

Generally speaking, the iron and steel sector will not be immune to these overall growth trends, and in this regard, the influence of Chinese economic development will be a decisive factor in both production and the evolution of the raw materials markets. This rise in demand will have a positive effect on forecast price increases in the sector.

Average forecast growth for the seamless stainless steel tube sector in the period 2004-2010, after two consecutive years (2002 and 2003) of a drop in global demand, is around 4%. In line with the general trends described, this rise will be concentrated in Asia, excluding Japan, and the US, with forecast growth of 6.6% and 4.4%, respectively, while estimated growth rates for Europe and Japan are 2.7% and 1.1%, respectively.

In this context, the Group has four principal strategic objectives:

- Consolidate its current market position in Europe as a key factor in the Group's present and future profitability.

- Increase group activity in the North American market by boosting commercial excellence, customer service and developing the necessary organisational skills.

- Improve productivity, reduce costs and optimise the use of the Group's productive fixed assets in order to acquire a competitive edge which would allow it to gain the largest share possible in the fastest growing markets over the period 2004-2010.
- Entry into products of higher added value.

In order to fulfil these objectives, the first step has been to implement the Competitiveness Plan in 2003 in the main production units with the goals and investments described in section 1 above.

Throughout 2004 and thereafter, the Group will concentrate its efforts on implementing the action plans necessary to bring to fruition the four principal strategic objectives with a view to improving the competitiveness and profitability of the main business units

Key aspects crucial to the development of these action plans in 2004 and thereafter, which we consider to be important strengths for the Group, are as follows:

- Development of and compliance with the Policies of Corporate Governance and Social Responsibility
- Stable policy of shareholder remuneration through dividends, in the range of 30-40% of net consolidated profit for the year.
- Continual improvements in productivity, competitiveness and production efficiency without significant investments.
- Solid equity structure. Constant reduction in the Group's financial borrowing.
- Maximum quality products and processes (ISO 9000 and ISO 14000).
- Customer service par excellence.

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

5. RESEARCH AND DEVELOPMENT ACTIVITIES

In view of the product niche on which the Tubacex Group focuses its activities, it has a permanent policy of promoting R&D activities.

In 2003, the Group continued with its policy of investing in projects fundamentally dedicated to improving the manufacturing processes through higher quality, cost cutting, environmental improvements, consolidation of the production processes through systematisation and the definition of values, thereby improving performance and minimising rejections.

One of the most relevant projects carried out is the incorporation of a new type of material containing 6% Molybdenum into the Acerálava and TTI production and commercialisation program, once the related manufacturing and inspections tests were concluded. This material is an austenitic grade which, in addition to having superior mechanical properties to steels of a similar structure, is extremely resistant to corrosion in chlorine or sea water environments and has applications in interchangers and condensers in the chemical and petrochemical industries, water treatment plants and pipes in onshore and offshore vessels and installations.

Within the program "Study of the effect of composition and microstructural evolution on the formation of defects during tube production by hot extrusion", developed in conjunction with CEIT through an agreement formalised in 2002, specific projects have been undertaken in 2002 with grades containing titanium and with ferritic-austenitic(duplex) steels.

Furthermore, treatment cycles have been developed for materials in the Acerálava thermic treatment furnace for the supply of round products, austenitic and duplex grades under optimum conditions of service.

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

Details of research and development activities are contained in the "Report on Corporate Social Responsibility".

6. ENVIRONMENTAL ACTIVITIES

As part of the plan for the implementation of its Environmental Management System, Acería de Álava S.A., a subsidiary of the Tubacex Group engaging in the manufacture of stainless steel at the initial processing stage and which obtained the ISO 14001 environmental management certification from AENOR in 2002 for all the activity carried out at its plants, entered into a voluntary agreement with the local government's Ministry of the Environment concerning the improvement of the environment in the sector.

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

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

In relation to this plan, Acería de Álava S.A. will make investments amounting to Euros 3 million to adapt its smoke extraction systems in 2004 and 2005. These investments will complement the significant efforts carried out in 2003 and prior years in all the plant's activity through actions, projects and investments for the control of raw materials, storage of products, controls of smoke emissions and air quality, water treatment, management and recycling of inert waste and transport of finished products.

Subsequent to the certification obtained by Acería de Álava S.A. in 2002, the whole of the production process of the Tubacex Group's Llodio and Amurrio plants, from the receipt of raw materials and the manufacture of stainless steel at the steelworks to the shipment of tubes manufactured at Tubacex Tubos Inoxidables, S.A. (TTI), has obtained environmental management certification.

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

We consider that these actions reflect a quality management and environmental protection policy that is consistent in time and applicable to all the Group's production units.

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

7. STATUTORY ACTIVITY

The "Report on Corporate Social Responsibility" details general policies and specific activities carried out by the Tubacex Group in 2003 in areas of social activity in relation to key stakeholders such as: the Company as a whole, the environment, employees and their representatives, shareholders, analysts and investors, the media, suppliers and contractors.

8. ACQUISITION OF OWN SHARES

No own shares have been acquired during the year.

9. PROPOSED DISTRIBUTION OF PROFIT

Tubacex, S.A. has recorded a profit of Euros 7,812,205.23, of which Euros 781,221 will be transferred to the legal reserve and the remaining Euros 7,030,984.23 will be applied to partially offset prior years' losses.

In order to maintain the dividend as the form of shareholder remuneration, payment of a dividend with a charge to unrestricted reserves was approved amounting to Euros 2,420,213.83, which represents a payment of Euros 0.0182 per share. This corresponds to the distribution of 40% of consolidated net profit for 2003 for shareholder remuneration.

10. OTHER

10.1. Audit fees

The audit work for the professional services performed at the Spanish Tubacex Group companies in 2003 amounted to Euros 118 thousand. In accordance with the principles regarding the independence of auditors included in the report on compliance with the recommendations of the Company's Board of Directors' Code of Corporate Governance, the auditor did not receive any remuneration from Tubacex for services other than the audit work.

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