

TENARIS SA  
Form 20-F  
June 29, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

\_\_\_\_\_  
**FORM 20-F**  
\_\_\_\_\_

(Mark One)

- Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**  
or
- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006**  
or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
or
- Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number: 001-31518

\_\_\_\_\_  
**TENARIS S.A.**

(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of registrant's name into English)

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**Grand Duchy of Luxembourg**  
(Jurisdiction of incorporation or organization)

**46a, Avenue John F. Kennedy - 2nd floor**

**L-1855 Luxembourg**  
(Address of principal executive offices)

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**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| <b>Title of Each Class</b>                         | <b>Name of Each Exchange On Which Registered</b> |
|--|--|
| <b>American Depositary Shares</b>                  | <b>New York Stock Exchange</b>                   |
| <b>Ordinary Shares, par value \$1.00 per share</b> | <b>New York Stock Exchange*</b>                  |

\* **Ordinary shares of Tenaris S.A. are not listed for trading but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.**

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Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**1,180,536,830 ordinary shares, par value \$1.00 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note--checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated Filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

*Please send copies of notices and communications from the Securities and Exchange Commission to:*

**Cristián J. P. Mitrani**  
**Mitrani Caballero Ojam Abogados**  
**Alicia Moreau de Justo 400, 3rd Floor**  
**(C1107AAH) Buenos Aires, Argentina**  
**(54 11) 4590-8600**

**Carlos J. Spinelli-Nosedá, Esq.**  
**Sullivan & Cromwell LLP**  
**125 Broad Street**  
**New York, New York 10004**  
**(212) 558-4000**

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**CERTAIN DEFINED TERMS**

Unless otherwise specified or if the context so requires:

References in this annual report to the Company refer exclusively to Tenaris S.A., a Luxembourg joint stock corporation (*société anonyme holding*).

References in this annual report to Tenaris, we, us or our refer to Tenaris S.A. and its consolidated subsidiaries. See Accounting Policies A, B and L to our audited consolidated financial statements included in this annual report.

References in this annual report to San Faustin refer to San Faustín N.V., a Netherlands Antilles corporation and the Company's controlling shareholder.

Shares refers to ordinary shares, par value \$1.00 of the Company.

ADSs refers to the American Depositary Shares, which are evidenced by American Depositary Receipts.

tons refers to metric tons; one metric ton is equal to 1,000 kilograms, 2,204.62 pounds, or 1.102 U.S. (short) tons.

billion refers to one thousand million, or 1,000,000,000.

**PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION**

**Accounting Principles**

We prepare our consolidated financial statements in conformity with International Financial Reporting Standards, or IFRS. IFRS differ in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 33 to our audited consolidated financial statements included in this annual report provides a description of the principal differences between IFRS and U.S. GAAP as they relate to our audited consolidated financial statements and provides a reconciliation of net income and shareholders' equity for the years and dates indicated herein.

We publish consolidated financial statements expressed in U.S. dollars. Our consolidated financial statements in this annual report are those for the year ended December 31, 2006.

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### **Currencies**

In this annual report, unless otherwise specified or the context otherwise requires:

dollars , U.S. dollars , US\$ or \$ each refers to the United States dollar;

, EUR or euros each refers to the Euro, the common currency of the European Union;

Argentine pesos or ARS each refers to the Argentine peso;

Brazilian real or BRL each refers to the Brazilian real;

British pounds , Pounds sterling or GBP each refers to the British pound;

Canadian dollars or CAD each refers to the Canadian dollar;

Colombian pesos or COP each refers to the Colombian peso;

Mexican pesos or MXP each refers to the Mexican peso;

Venezuelan Bolívares or VEB , each refers to the Venezuelan bolívar;

Yen , Japanese yen or JPY each refers to the Japanese yen; *and*

Romanian Lei or RON each refers to the Romanian new lei.

On December 29, 2006, the exchange rate between; the euro and the U.S. dollar (as published by European Central Bank) was 1.00=\$1.3170; the Argentine peso (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARS3.0695=\$1.00; the noon buying rate for the Brazilian real (as certified for customs purposes by the Federal Reserve Bank of New York, or the Federal Reserve) was BRL2.1342=\$1.00; the noon buying rate for the British pound (as published by the Federal Reserve) was GBP1.00=\$1.9586; the noon buying rate for the Canadian dollar (as published by the Federal Reserve) was CAD1.1652=\$1.00; the Colombian peso (as published by the *Banco de la República de Colombia*) was COP2,238.79=\$1.00; the noon buying rate for the Mexican peso (as published by the Federal Reserve) was MXP10.7995=\$1.00; the noon buying rate for the Venezuelan bolívar (as published by the Federal Reserve) was VEB2,144.60=\$1.00; the noon buying rate for the Japanese yen (as published by the Federal Reserve) was JPY119.02=\$1.00 and the Romanian Lei (as published by the National Bank of Romania) was RON2.5676=\$1.00. Those rates may differ from the actual rates used in the preparation of our consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that the U.S. dollars could have been or could be converted into any of these currencies.

### **Rounding; Comparability of Data**

Certain monetary amounts, percentages and other figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as

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percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

### **Our Internet Site is Not Part of This Annual Report**

We maintain an Internet site at [www.tenaris.com](http://www.tenaris.com). Information contained in or otherwise accessible through this website is not a part of this annual report. All references in this annual report to these Internet sites are inactive textual references to these URLs, or uniform resource locators and are for informational reference only. We assume no responsibility for the information contained on these sites.

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This annual report and any other oral or written statements made by us to the public may contain forward-looking statements within the meaning of and subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This annual report contains forward-looking statements, including with respect to certain of our plans and current goals and expectations relating to Tenaris's future financial condition and performance.

Sections of this annual report that by their nature contain forward-looking statements include, but are not limited to, Item 3. Key Information, Item 4. Information on the Company, Item 5. Operating and Financial Review and Prospects, Item 8. Financial Information and Item 11. Quantitative and Qualitative Disclosure About Market Risk.

We use words such as aim, will likely result, will continue, contemplate, seek to, future, objective, goal, should, will pursue, expect, project, intend, plan, believe and words and terms of similar substance to identify forward-looking statements, but they are not the way we identify such statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to our business discussed under Item 3. D. Key Information Risk Factors, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

management strategy;

expected ability to price our products and services;

capital spending;

growth, expansion and forecasts of our business;

trends and other prospective data, including trends regarding the levels of investment in oil and gas exploration and drilling worldwide;

general macroeconomic and political conditions in the countries in which we operate or distribute pipes; *and*

risks associated with the conduct of our business.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses that may affect our financial condition and results of operations could differ materially from those that have been estimated. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.



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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**  
Not applicable.

**Item 2. Offer Statistics and Expected Timetable**  
Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the years and at the dates indicated herein. Our consolidated financial statements were prepared in accordance with IFRS and were audited by Price Waterhouse & Co. S.R.L., of Argentina, a registered public accounting firm and a member firm of PricewaterhouseCoopers. IFRS differ in certain significant respects from U.S. GAAP. Note 33 to our audited consolidated financial statements included in this annual report provides a description of the principal differences between IFRS and U.S. GAAP as they relate to our audited consolidated financial statements and provides a reconciliation of net income and shareholders' equity for the years and dates indicated therein.

For a discussion of the currencies used in this annual report, exchange rates and accounting principles affecting the financial information contained in this annual report, please see "Presentation of Certain Financial and other Information," "Accounting Principles," and "Currencies."

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Thousands of U.S. dollars (except number of shares and per share amounts)

|   | For the year ended December 31, |               |               |               |             |
|---|---------------------------------|---------------|---------------|---------------|-------------|
|   | 2006                            | 2005          | 2004          | 2003          | 2002        |
| <b>Selected consolidated income statement data<sup>(1)</sup></b>                        |                                 |               |               |               |             |
| <b>IFRS</b>   |                                 |               |               |               |             |
| Net sales   | 7,727,745                       | 6,209,791     | 3,718,193     | 2,846,435     | 3,014,268   |
| Cost of sales   | (3,884,226)                     | (3,429,365)   | (2,378,474)   | (1,891,308)   | (1,975,623) |
| Gross profit  | 3,843,519                       | 2,780,426     | 1,339,719     | 955,127       | 1,038,645   |
| Selling, general and administrative expenses  | (1,054,806)                     | (832,315)     | (661,226)     | (558,697)     | (564,897)   |
| Other operating income (expenses), net  | 3,773                           | (2,199)       | 127,165       | (117,961)     | (11,281)    |
| Operating income  | 2,792,486                       | 1,945,912     | 805,658       | 278,469       | 462,467     |
| Interest income   | 60,798                          | 23,815        | 14,236        | 16,424        | 14,124      |
| Interest expense  | (92,576)                        | (52,629)      | (46,161)      | (32,621)      | (34,214)    |
| Other financial results   | 26,826                          | (79,772)      | 38,304        | (11,768)      | (129)       |
| Income before equity in earnings of associated companies and income tax                 | 2,787,534                       | 1,837,326     | 812,037       | 250,504       | 442,248     |
| Equity in earnings (losses) of associated companies                                     | 94,667                          | 117,377       | 206,141       | 27,585        | (6,802)     |
| Income before income tax  | 2,882,201                       | 1,954,703     | 1,018,178     | 278,089       | 435,446     |
| Income tax  | (869,977)                       | (567,368)     | (217,226)     | (61,251)      | (204,321)   |
| Income for continuing operations <sup>(2)</sup>   | 2,012,224                       | 1,387,335     | 800,952       | 216,838       | 231,125     |
| Income (loss) for discontinued operations   | 47,180                          | (3)           | 4,029         | 5,600         | 5,582       |
| Income for the year <sup>(2)</sup>  | 2,059,404                       | 1,387,332     | 804,981       | 222,437       | 236,707     |
| Income attributable to <sup>(2)</sup> :   |                                 |               |               |               |             |
| Equity holders of the Company   | 1,945,314                       | 1,277,547     | 784,703       | 210,308       | 94,304      |
| Minority interest   | 114,090                         | 109,785       | 20,278        | 12,129        | 142,403     |
| Income for the year <sup>(2)</sup>  | 2,059,404                       | 1,387,332     | 804,981       | 222,437       | 236,707     |
| Depreciation and amortization   | (255,004)                       | (214,227)     | (208,119)     | (199,799)     | (176,315)   |
| Weighted average number of shares outstanding <sup>(3)</sup>                            | 1,180,536,830                   | 1,180,536,830 | 1,180,506,876 | 1,167,229,751 | 732,936,680 |
| Basic and diluted earnings per share for continuing operations <sup>(4)</sup>           | 1.61                            | 1.08          | 0.66          | 0.18          | 0.12        |
| Basic and diluted earnings per share <sup>(4)</sup>                                     | 1.65                            | 1.08          | 0.66          | 0.18          | 0.13        |
| Dividends per share <sup>(5)</sup>  | 0.30                            | 0.30          | 0.17          | 0.11          | 0.10        |
| <b>U.S. GAAP</b>  |                                 |               |               |               |             |
| Net sales   | 8,230,796                       | 6,736,197     | 4,136,063     | 3,179,652     | 3,219,384   |
| Operating income  | 2,814,130                       | 1,956,718     | 823,527       | 297,568       | 476,107     |
| Income before cumulative effect of accounting changes                                   | 1,957,316                       | 1,295,465     | 730,339       | 203,908       | 110,049     |
| Cumulative effect of accounting changes   |                                 |               |               |               | (17,417)    |
| Net income  | 1,957,316                       | 1,295,465     | 730,339       | 203,908       | 92,632      |
| Weighted average number of shares outstanding <sup>(3)</sup>                            | 1,180,536,830                   | 1,180,536,830 | 1,180,506,876 | 1,167,229,751 | 732,936,680 |
| Basic and diluted earnings per share before effect of accounting changes <sup>(4)</sup> | 1.66                            | 1.10          | 0.62          | 0.18          | 0.15        |
| Cumulative effect of accounting changes per share <sup>(4)</sup>                        |                                 |               |               |               | (0.02)      |
| Basic and diluted earnings per share <sup>(4)</sup>                                     | 1.66                            | 1.10          | 0.62          | 0.18          | 0.13        |

(1) Certain comparative amounts for 2005, 2004, 2003 and 2002 have been re-presented to conform to changes in presentation for 2006, mainly due to the sale of a majority ownership in Dalmine Energie. See accounting policy C. Segment information and note 30. Discontinued operations to our consolidated financial statements included in this annual report.

(2)

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International Accounting Standard No. 1 ( IAS 1 ) (revised), requires that income for the year as shown on the income statement not exclude minority interest. Earnings per share, however, continue to be calculated on the basis of income attributable solely to the equity holders of the Company.

- (3) On October 18, 2002, Sidertubes S.A., formerly a wholly owned subsidiary of San Faustín, contributed all of its assets for 710,747,090 shares of Tenaris. Upon the consummation of an exchange offer in December 2002 and subsequent acquisitions of minority interests Tenaris had a total of 1,180,536,830 shares issued and outstanding at December 31, 2006, 2005 and 2004 and 1,180,287,664 and 1,160,700,794 shares issued and outstanding at December 31, 2003 and 2002, respectively.
- (4) Earnings per share before effect of accounting changes, cumulative effect of accounting changes per share, earnings per share and dividends per share for the year ended December 31, 2002 have been calculated based on the assumption that 710,747,187 shares were issued and outstanding until October 18, 2002.
- (5) Dividends per share correspond to the dividends proposed or paid in respect of the year.

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Thousands of U.S. dollars (except number of shares and per share amounts)

|  | 2006          | 2005          | At December 31,<br>2004 | 2003          | 2002          |
|--|---------------|---------------|-------------------------|---------------|---------------|
| <b>Selected consolidated balance sheet data<sup>(1)</sup></b>                    |               |               |                         |               |               |
| <b>IFRS</b>  |               |               |                         |               |               |
| Current assets   | 6,028,832     | 3,773,284     | 3,012,092               | 2,035,895     | 1,810,581     |
| Property, plant and equipment, net   | 2,939,241     | 2,230,038     | 2,164,601               | 1,960,314     | 1,934,237     |
| Other non-current assets   | 3,627,169     | 702,706       | 485,595                 | 313,339       | 337,080       |
| Total assets   | 12,595,242    | 6,706,028     | 5,662,288               | 4,309,548     | 4,081,898     |
| Current liabilities  | 2,765,504     | 1,699,101     | 1,999,846               | 1,328,677     | 1,203,278     |
| Non-current borrowings   | 2,857,046     | 678,112       | 420,751                 | 374,779       | 322,205       |
| Deferred tax liabilities   | 991,945       | 353,395       | 371,975                 | 418,333       | 500,031       |
| Other non-current liabilities  | 279,117       | 199,547       | 208,521                 | 226,495       | 175,547       |
| Total liabilities  | 6,893,612     | 2,930,155     | 3,001,093               | 2,348,284     | 2,201,061     |
| Capital and reserves attributable to the Company's equity holders <sup>(2)</sup> | 5,338,619     | 3,507,802     | 2,495,924               | 1,841,280     | 1,694,054     |
| Minority interest  | 363,011       | 268,071       | 165,271                 | 119,984       | 186,783       |
| Total liabilities and equity   | 12,595,242    | 6,706,028     | 5,662,288               | 4,309,548     | 4,081,898     |
| Number of shares outstanding <sup>(3)</sup>                                      | 1,180,536,830 | 1,180,536,830 | 1,180,536,830           | 1,180,287,664 | 1,160,700,794 |
| <b>U.S. GAAP</b>   |               |               |                         |               |               |
| Total assets   | 12,479,239    | 6,557,751     | 5,595,345               | 4,287,548     | 4,051,044     |
| Net assets   | 5,629,990     | 3,683,010     | 2,655,196               | 2,008,964     | 1,935,698     |
| Total shareholders' equity   | 5,265,802     | 3,413,593     | 2,488,372               | 1,887,207     | 1,745,883     |
| Number of shares outstanding <sup>(3)</sup>                                      | 1,180,536,830 | 1,180,536,830 | 1,180,536,830           | 1,180,287,664 | 1,160,700,794 |
| Equity holders' equity per share   | 4.46          | 2.89          | 2.11                    | 1.60          | 1.50          |

(1) Certain comparative amounts for 2005, 2004, 2003 and 2002 have been re-presented to conform to changes in presentation for 2006.

(2) The Company's common stock consists of 1,180,536,830 shares issued and outstanding at December 31, 2006, 2005 and 2004, 1,180,287,664 shares issued and outstanding at December 31, 2003 and 1,160,700,794 shares issued and outstanding at December 31, 2002. Shares are par value \$1.00 per share. Common stock accounted for the following amounts within shareholders' equity: \$1,180.5 million at December 31, 2006, 2005 and 2004, \$1,180.3 million at December 31, 2003, and \$1,160.7 million at December 31, 2002.

(3) On October 18, 2002, Sidertubes S.A., formerly a wholly owned subsidiary of San Faustín, contributed all of its assets for 710,747,090 shares of Tenaris. Upon the consummation of the December 2002 exchange offer and subsequent acquisitions of minority interests Tenaris had a total of 1,180,536,830 shares issued and outstanding at December 31, 2006, 2005 and 2004 and 1,180,287,664 and 1,160,700,794 shares issued and outstanding at December 31, 2003 and 2002, respectively.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

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*You should carefully consider the risks and uncertainties described below, together with all other information contained in this annual report, before making any investment decision. Any of these risks and uncertainties could have a material adverse effect on our business, financial condition and results of operations, which could in turn affect the price of our shares and ADSs.*

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### **Risks Relating to our Industry**

***Sales and revenues may fall as a result of downturns in the international price of oil and other circumstances affecting the oil and gas industry.***

We are a global steel pipe manufacturer with a strong focus on manufacturing products and related services for the oil and gas industry. The oil and gas industry is a major consumer of steel pipe products worldwide, particularly for products manufactured under high quality standards and demanding specifications. Demand for steel pipe products from the oil and gas industry has historically been volatile and depends primarily upon the number of oil and natural gas wells being drilled, completed and reworked, and the depth and drilling conditions of these wells. The level of these activities depends primarily on current and expected future prices of oil and natural gas and their impact on investment by oil and gas companies in exploration and production activity. Several factors, such as the supply and demand for oil and natural gas, and political and global economic conditions, affect these prices. When the price of oil and gas falls, oil and gas companies generally reduce spending on production and exploration activities and, accordingly, make fewer purchases of steel pipe products. Other circumstances such as geopolitical events and hostilities in the Middle East and elsewhere may also affect drilling activity and, as a result, cause steel pipe consumption to decline.

***Sales and revenues may fall as a result of fluctuations in industry inventory levels.***

Inventory levels of steel pipe in the oil and gas industry can vary significantly from period to period and from region to region. These fluctuations can affect the demand for our products, as customers draw from existing inventory during periods of low investment in drilling and other activities and accumulate inventory during periods of high investment. Even if the prices of oil and gas rise or remain stable, oil and gas companies may not purchase additional steel pipe products or maintain their current purchasing volume.

***Competition in the global market for steel pipe products may cause us to lose market share and hurt our sales and profitability.***

The global market for steel pipe products is highly competitive, with the primary competitive factors being price, quality, service and technology. We compete in most markets outside North America primarily against a limited number of manufacturers of premium-quality steel pipe products. In the U.S. and Canada, we compete against a wide range of local and foreign producers. Competition in markets worldwide has been increasing, particularly for products used in standard applications, as producers in countries like China and Russia increase production capacity and seek to enter export markets. In addition, some of these producers are improving the range, quality and technology of their pipes, thereby increasing their ability to compete with us. We may not continue to compete effectively against existing or potential producers and preserve our current shares of geographic or product markets.

***As a result of antidumping and countervailing duty proceedings and other import restrictions, we may not be allowed to sell our products in important geographic markets such as the United States.***

Local producers in the United States and other markets have filed antidumping, countervailing duty and safeguard actions against us and other producers in their home countries in several instances in the past. Some of these actions led to significant penalties, including the imposition of antidumping and countervailing duties, in the United States. Certain of our steel pipe products manufactured outside the United States have been subject to such duties in the United States; many of these have recently been revoked, but these or other restrictions may be imposed again in the future. Antidumping or countervailing duty proceedings or any resulting penalties or any other form of import restriction may impede our access to one or more important export markets for our products and in the future additional markets could be closed to us as a result of similar proceedings, thereby adversely impacting our sales or limiting our opportunities for growth.

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### ***Increases in the cost of raw materials and energy may hurt our profitability.***

The manufacture of seamless steel pipe products requires substantial amounts of steelmaking raw materials and energy; welded steel pipe products, in turn, are processed from steel coils and plates. The availability and pricing of a significant portion of the raw materials and energy we require are subject to supply and demand conditions, which can be volatile, and to government regulation, which can affect continuity of supply and prices. In recent years, the cost of raw materials used in our business has increased significantly due to increased global demand for steel products in general. In addition, limited availability of energy in Argentina, where we have significant operations, and consequent supply restrictions could lead to higher costs of production and eventually to production cutbacks at our facilities there. Moreover, we are dependent on a few suppliers for a significant portion of our steel coils requirements at our recently acquired welded pipe operations in North America and the loss of any of these suppliers could result in increased production costs, production cutbacks and reduced competitiveness at these operations. We may not be able to recover increased costs of raw materials and energy through increased prices on our products, and limited availability could force us to curtail production, which could adversely affect our sales and profitability.

### ***Potential environmental, product liability and other claims could create significant liabilities for us that would adversely impact our business, financial condition, results of operations and prospects.***

Our oil and gas casing, tubing and line pipe products are sold primarily for use in oil and gas drilling, gathering, transportation and processing activities, which are subject to inherent risks, including well failures, line pipe leaks, bursts and fires, that could result in death, personal injury, property damage, environmental pollution or loss of production. Any of these hazards and risks can result in environmental liabilities, personal injury claims and property damage from the release of hydrocarbons. Similarly, defects in specialty tubing products could result in death, personal injury, property damage, environmental pollution, damage to equipment and facilities or loss of production.

We normally warrant the oilfield products and specialty tubing products we sell or distribute in accordance with customer specifications, but as we pursue our business strategy of providing customers with additional supply chain services, we may be required to warrant that the goods we sell and services we provide are fit for their intended purpose. Actual or claimed defects in our products may give rise to claims against us for losses suffered by our customers and expose us to claims for damages. The insurance we maintain may not be adequate or available to protect us in the event of a claim or its coverage may be limited, canceled or otherwise terminated.

Similarly, our sales of tubing and components for the automobile industry subject us to potential product liability risks that could extend to being held liable for the costs of the recall of automobiles sold by car manufacturers and their distributors.

### **Risks Relating to our Business**

#### ***Adverse economic or political conditions in the countries where we operate or sell our products and services may decrease our sales, hurt our financial condition and revenues or disrupt our manufacturing operations, thereby adversely affecting our profitability and financial condition.***

We are exposed to economic and political conditions in the countries where we operate or sell our products and services. The economies of these countries are in different stages of social and economic development. Like other companies with worldwide operations, we are exposed to risks from fluctuations in foreign currency exchange rates, interest rates and inflation. We are also affected by governmental policies regarding spending, social instability, regulatory and taxation changes, and other political, economic or social developments of the countries in which we operate.

Significant portions of our operations are located in politically volatile or unstable countries, including Argentina, Brazil, Colombia, Mexico, Romania and Venezuela. As a consequence, our business and operations have been, and could in the future be, affected from time to time to varying degrees by political developments, events, laws and regulations (such as forced divestiture of assets; restrictions on production, imports and exports; interruptions in the supply of

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essential energy inputs; exchange and/or transfer restrictions; inflation; devaluation; war or other international conflicts; civil unrest and local security concerns that threaten the safe operation of our facilities and operations; direct and indirect price controls; tax increases; changes in the interpretation or application of tax laws and other retroactive tax claims or challenges; expropriation of property; changes in laws, norms and regulations; cancellation of contract rights; delays or denials of government approvals; and environmental regulations). Both the likelihood of such occurrences and their overall impact upon us vary greatly from country to country and are not predictable. Realization of these risks could have an adverse impact on the results of operations and financial condition of our subsidiaries located in the affected country.

For example, we have significant manufacturing operations and assets in Argentina. Our business may be materially and adversely affected by economic, political, fiscal and regulatory developments in Argentina, including the following:

Inflation has increased since 2004, and the economy has been affected by supply constraints as capacity idled during the economic crisis has been utilized. Capital investment, particularly in infrastructure, has lagged due to political uncertainties and the government action, including price controls and other regulatory measures. Investment in energy and transportation infrastructure has been particularly affected. Our business and operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina or by the Argentine government's policy response to such conditions.

The Argentine government has increased taxes on our operations in Argentina, through several methods. If the Argentine government continues to increase the tax burden on our operations, our results of operation and financial condition could be adversely affected.

Restrictions on the supply of energy to our operations in Argentina could curtail our production and negatively impact our results of operations. If the Argentine government does not take measures that result in the investment in natural gas generation, energy production and transportation capacity required to keep pace with the growth in demand on a timely basis, our production in Argentina could be curtailed, and our sales and revenue could decline.

The Argentine Central Bank has imposed restrictions on the transfer of funds outside of Argentina and other exchange controls in the past and may do so in the future, which could prevent us from paying dividends or other amounts from cash generated by our Argentine operations. In addition, we are currently required to repatriate U.S. dollars collected in connection with exports from Argentina (including U.S. dollars obtained through advance payment and pre-financing facilities) into Argentina and convert them into Argentine pesos at the market-based floating exchange rate applicable on the date of repatriation. This requirement, and any similar requirement that may be imposed in the future, exposes us to the risk of losses arising from fluctuations in the exchange rate of the Argentine peso. For additional information on current Argentine exchange controls and restrictions see Item 10.D. Additional Information Exchange Controls .

Similarly, we have significant exposure to Venezuela, where we operate a seamless pipe manufacturing facility and a raw material processing facility, and have a significant equity investment in Ternium S.A., or Ternium, a steel producer which has substantial operations in Venezuela. Our business and financial condition could be adversely affected by economic, political and regulatory developments in Venezuela, as follows:

On January 31, 2007, the Venezuelan National Assembly passed an enabling law, granting President Chávez the power to govern by decree with the force of law in various matters, including the industrial and energy sectors, for 18 months. Following the December 2006 elections and the enactment of the enabling law, the Venezuelan government threatened expropriations and took a number of significant measures, including the cancellation of mining concessions, the re-nationalization of public utilities, and the forced renegotiation of contracts with oil and gas companies. If political or economic measures such as expropriation, nationalization, price controls or renegotiation or nullification of contracts (like those for the



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supply of raw materials or energy) were implemented on or in connection with our Venezuelan subsidiaries or with Ternium's subsidiary Sidor, their operations and revenues, and consequently our financial results, could be adversely affected.

In addition, the Venezuelan government frequently intervenes in the Venezuelan economy and occasionally makes significant changes in policy. Government's actions to control inflation and implement other policies have involved wage and price controls, currency devaluations, capital controls and limits on imports, among other things. In addition, in February 2003, the Venezuelan government suspended the trading of foreign currencies and adopted a series of exchange regulations that established a strict exchange control regime. See Item 10.D. Additional Information Exchange Controls. Our business, financial condition, and results of operations could be adversely affected by changes in policy involving tariffs, exchange controls and other matters such as currency devaluation, inflation, interest rates, taxation, industrial laws and regulations and other political or economic developments in or affecting Venezuela. Several measures imposed by the Venezuelan government, such as exchange controls and transfer restrictions, have affected and may further affect the operations of our subsidiaries in Venezuela and could prevent them from paying dividends or other amounts from cash generated by our Venezuelan operations.

In addition adverse political and economic developments in the Middle East and Nigeria have had an adverse impact on our sales in those countries in recent years, and may continue to do so.

***If we do not successfully implement our business strategy, our ability to grow, our competitive position and our sales and profitability may suffer.***

We plan to continue implementing our business strategy of developing higher value products designed to serve and meet the needs of customers operating in demanding environments, developing and offering additional value-added services, which enable us to integrate our production activities with the customer's supply chain, and continuing to pursue strategic acquisitions opportunities. Any of these components of our overall business strategy could be delayed or abandoned, could cost more than anticipated or may not be successfully implemented. For example, we may fail to develop products that differentiate us from our competitors or fail to find suitable acquisition targets or to consummate those acquisitions under favorable conditions, or we may be unable to successfully integrate acquired businesses into our operations. Even if we successfully implement our business strategy, it may not yield the expected results.

***If we are unable to agree with our joint venture partner in Japan regarding the strategic direction of our joint operations, our operations in Japan may be adversely impacted.***

In 2000, we entered into a joint venture agreement with a term of 15 years with NKK Corporation, or NKK, to form NKKTubes. In September 2002, NKK and Kawasaki Steel, one of our main competitors, completed a business combination through which they became subsidiaries of JFE Holdings Inc., or JFE. JFE's continued operation of the former Kawasaki Steel steel pipe business in competition with NKKTubes, or JFE's potential lack of interest in the continued development of NKKTubes, could place NKKTubes at a disadvantage and adversely impact our operations in Japan.

***Future acquisitions and strategic partnerships may not perform in accordance to expectations or may disrupt our operations and hurt our profits.***

A key element of our business strategy is to identify and pursue growth-enhancing strategic opportunities. As part of that strategy, we acquired interests in various companies during recent years. For example, on May 7, 2007, we acquired Hydril Corporation, or Hydril, a leading North American producer of premium connections and pressure control products for the oil and gas industry (for more information on the Hydril acquisition, see Operating and Financial Review and Prospects Recent Developments Acquisition of Hydril Company), and on October 5, 2006, we acquired Maverick Tube Corporation, or Maverick, a leading North American producer of welded steel pipe products with operations in the U.S., Canada and Colombia. We will continue actively to consider other strategic acquisitions and partnerships from time to time. We must necessarily base any assessment of potential

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acquisitions and partnerships on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Our Maverick and Hydril acquisitions, and other past or future acquisitions, significant investments and alliances may not perform in accordance with our expectations and could adversely affect our operations and profitability. In addition, new demands on our existing organization and personnel resulting from the integration of new acquisitions could disrupt our operations and adversely affect our operations and profitability.

***We may be required to record a significant charge to earnings if we must reassess our goodwill or other intangible assets.***

In accordance with IFRS, management must test all of our assets, including goodwill and other intangible assets, annually for impairment, or more frequently if there are indicators of impairment, and recognize a non-cash charge in an amount equal to the impairment. In connection with the acquisition of Maverick completed on October 5, 2006, we recorded \$1,113 million in goodwill as of December 31, 2006. In addition, we recorded \$1,494 million in customer relationships. If our management was to determine in the future that the goodwill or customer relationships recognized in connection with the Maverick acquisition were impaired, we would be required to recognize a non-cash charge to write down the value of these assets, which would adversely affect our financial condition and results of operations. On May 7, 2007, we completed the acquisition of Hydril, as a result of which we expect to record additional goodwill and/or customer relationships.

***Our results of operations could be adversely affected by movements in exchange rates.***

As a global company we manufacture and sell products in a number of countries throughout the world and as a result we are exposed to foreign exchange rate risk. Changes in currency values could adversely affect our financial condition and results of operations.

***Related-party transactions with companies controlled by San Faustin may not be on terms as favorable as could be obtained from unrelated and unaffiliated third parties.***

A portion of our sales and purchases of goods and services are made to and from other companies controlled by San Faustin. These sales and purchases are primarily made in the ordinary course of business and we believe they are carried out on terms no less favorable than those we could obtain from unaffiliated third parties. We will continue to engage in related-party transactions in the future, and these transactions may not be on terms as favorable as could be obtained from unaffiliated third parties. For information concerning our principal transactions with related parties, see Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions .

***Our sales of steel pipe products for pipeline projects are volatile and depend mainly on the availability of major regional projects and on our ability to secure contracts to supply these projects.***

Our sales of pipes for pipeline projects depend to a large extent on the number of active pipeline projects under contract and their rate of progress, particularly in the South American regional market where we have our manufacturing facilities for these products. Future sales of these products depend to a large extent on our ability to secure contracts to supply major pipeline projects and the absence of political and financial conditions affecting their implementation. The availability of such projects varies significantly from year to year. For example, during 2006, demand for our pipes for pipelines projects was negatively affected by delays in the definition of major projects in Brazil and Argentina. Our welded pipe revenues and profitability may fluctuate significantly in future years depending on our success in securing large supply contracts and on specific factors such as the cancellation or postponement of specific projects due to changes in government policies or adverse developments in economic, political or other factors.

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***The cost of complying with environmental regulations and unforeseen environmental liabilities may increase our operating costs or negatively impact our net worth.***

We are subject to a wide range of local, provincial and national laws, regulations, permit requirements and decrees relating to the protection of human health and the environment. We incur and will continue to incur expenditures to comply with these and such regulations. The expenditures necessary to remain in compliance with these laws and regulations, including site or other remediation costs, or costs incurred from unforeseen environmental liabilities, could have a material adverse effect on our financial condition and profitability.

### **Risks Relating to the Structure of the Company**

***As a holding company, our ability to pay cash dividends depends on the results of operations and financial condition of our subsidiaries and could be restricted by legal, contractual or other limitations.***

We conduct all our operations through subsidiaries. Dividends or other intercompany transfers of funds from our subsidiaries are our primary source of funds to pay expenses, debt service and dividends. We do not and will not conduct operations at the holding company level.

The ability of our subsidiaries to pay dividends and make other payments to us will depend on the profitability of their operations and their financial condition and could be restricted by applicable corporate and other laws and regulations, including those imposing exchange controls or transfer restrictions, and other agreements and commitments of our subsidiaries.

In addition, our ability to pay dividends to shareholders is subject to legal and other requirements and restrictions in effect at the holding company level. For example, we may only pay dividends out of distributable retained earnings and distributable reserves calculated in accordance with Luxembourg Law and regulations. Furthermore, as long as the outstanding amount under the Company's syndicated loan facility for the Hydril acquisition is equal to or higher than \$1.0 billion, we may not distribute dividends in excess of the greater of \$475 million and 25% of the consolidated operating profit for the previous fiscal year. See Item 8.A. Financial Information- Consolidated Statements and Other Financial Information Dividend Policy .

***Our tax-exempt status will terminate on December 31, 2010. If we are unable to mitigate the consequences of the termination of our preferential tax regime, we or our shareholders may be subject to a higher tax burden in the future.***

We were established as a *société anonyme holding* under Luxembourg's 1929 holding company regime and the billionaire provisions relating thereto. 1929 holding companies are exempt from certain business taxes on earnings and on payments. Following a decision by the European Commission, the Grand-Duchy of Luxembourg has terminated its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly-listed companies including us are entitled to continue benefiting from their current tax regime until December 31, 2010. If we are unable to mitigate the consequences of the termination of our preferential tax regime, we or our shareholders may be subject to a higher tax burden in the future.

***The Company's controlling shareholder may be able to take actions that do not reflect the will or best interests of other shareholders.***

As of May 31, 2007, San Faustín beneficially owned 60.4% of our shares. San Faustín is controlled by Rocca & Partners. As a result, Rocca & Partners is indirectly able to elect a substantial majority of the members of our board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends by us. The decisions of the controlling shareholder, may not reflect the will or best interests of other shareholders. For example, our articles of association permit our board of directors to waive, limit or suppress preemptive rights in certain cases. Accordingly, our controlling shareholder may cause our board of directors to approve an issuance of shares for consideration without preemptive rights, thereby diluting the minority interest in the Company. See Item 3.D. Risk Factors Risks relating to the Company's shares and ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases .

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**Risks Relating to the Company's Shares and ADSs**

*The trading price of our shares and ADSs may suffer as a result of developments in emerging markets in general, not just the emerging markets where we have assets and operations.*

Although the Company is organized as a Luxembourg corporation, a significant portion of our assets and operations are located in Latin America and many of our shares and ADSs are held in the portfolios of funds with a mandate to invest in emerging market securities. Financial and securities markets for companies with substantial asset and operational exposure to emerging markets are, to varying degrees, influenced by economic, market conditions and developments in general in other emerging market countries where they are not present. Although economic conditions are different in each country, investor reaction to developments in one country can have significant effects on the securities of issuers with assets or operations in other emerging markets. Securities prices of companies with significant Latin American exposure were adversely affected by, among other events, the economic crises in Russia and Brazil in 1998, the collapse of the exchange rate regime in Turkey in February 2001 and the Argentine crisis in late 2001.

*In deciding whether to purchase, hold or sell our shares or ADSs, you may not have access to as much information about us as you would in the case of a U.S. company.*

There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, Luxembourg regulations governing the securities of Luxembourg companies may not be as extensive as those in effect in the United States, and Luxembourg law and regulations in respect of corporate governance matters might not be as protective of minority shareholders as state corporation laws in the United States. Furthermore, IFRS, the accounting standards in accordance with which we prepare our consolidated financial statements differ in certain material aspects from the accounting standards used in the United States.

*Holders of our ADSs may encounter difficulties in the exercise of dividend and voting rights.*

You may encounter difficulties in the exercise of some of your rights as a shareholder if you hold ADSs rather than shares. If we make a distribution in the form of securities, the depositary is allowed, at its discretion, to sell that right to acquire those securities on your behalf and instead distribute the net proceeds to you. Also, under certain circumstances, such as our failure to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary.

*Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases.*

Pursuant to Luxembourg corporate law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company's articles of association, the board of directors has been authorized to waive, limit or suppress such preemptive subscription rights until 2012. The Company may, however, issue shares without preemptive rights if the newly-issued shares are issued for consideration other than cash, are issued as compensation to directors, officers, agents or employees of the Company or its affiliates, or are issued to satisfy conversion or option rights created to provide compensation to directors, officers, agents or employees of the Company, its subsidiaries or its affiliates. Holders of the Company's ADSs in the United States may, in any event, not be able to exercise any preemptive rights, if granted, for ordinary shares underlying their ADSs unless additional ordinary shares and ADSs are registered under the U.S. Securities Act of 1933, as amended, or Securities Act, with respect to those rights, or an exemption from the registration requirements of the Securities Act is available. Prior to any capital increase or rights offering, the Company will evaluate the costs and potential liabilities associated with the exercise by holders of ADSs of their preemptive rights for ordinary shares underlying their ADSs and any other factors it considers appropriate. The Company may decide not to register any additional ordinary shares or ADSs, in which case the

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depository would be required to sell the holders' rights and distribute the proceeds thereof. Should the depository not be permitted or otherwise be unable to sell preemptive rights, the rights may be allowed to lapse with no consideration to be received by the holders of the ADSs.

*It may be difficult to enforce judgments against us in U.S. courts.*

The Company is a corporation organized under the laws of Luxembourg, and most of our assets are located outside of the United States. Furthermore, most of the Company's directors and officers named in this annual report reside outside the United States. As a result, investors may not be able to effect service of process within the United States upon us or our directors or officers or to enforce against us or them in U.S. courts judgments predicated upon the civil liability provisions of U.S. federal securities law. There is also uncertainty with regard to the enforceability of original actions in courts outside the United States of civil liabilities predicated upon the civil liability provisions of U.S. federal securities laws. Furthermore, the enforceability in courts outside the United States of judgments entered by U.S. courts predicated upon the civil liability provisions of U.S. federal securities law will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction.

### **Item 4. Information on the Company Overview**

We are a leading global manufacturer and supplier of steel pipe products and related services for the world's energy industry as well as for other industrial applications. Our customers include most of the world's leading oil and gas companies as well as engineering companies engaged in constructing oil and gas gathering, transportation and processing facilities. Our principal products include casing, tubing, line pipe, and mechanical and structural pipes.

In the last fifteen years, we have expanded our business globally through a series of strategic investments, and, in the last twelve months, we have transformed our presence in the North American market through the acquisitions of Maverick, a leading North American producer of steel pipe products for the oil and gas industry with operations in the U.S., Canada and Colombia, and Hydril, a leading North American manufacturer of premium connection and pressure control products for the oil and gas industry. We now operate an integrated worldwide network of steel pipe manufacturing, research, finishing and service facilities with industrial operations in North and South America, Europe, Asia and Africa and a direct presence in most major oil and gas markets.

We provide tubular products and related services to our customers around the world through global business units serving specific market segments and business units serving the local regional markets where we have our main production facilities. Our global business units include:

Tenaris Oilfield Services, focused on the tubular needs of oil and gas companies in their drilling activities;

Tenaris Pipeline Services, focused on the tubular needs of oil and gas and other energy companies in the transmission of fluids and gases from the well head to processing and distribution facilities;

Tenaris Process and Power Plant Services, focused on the tubular needs of oil and gas processing facilities, refineries, petrochemical companies and energy generating plants for construction and maintenance purposes; *and*

Tenaris Industrial and Automotive Services, focused on the tubular needs of automobile and other industrial manufacturers.

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### **History and Corporate Organization**

Our holding company's legal and commercial name is Tenaris S.A. The Company is a joint stock corporation (société anonyme holding) organized under the laws of Luxembourg and was incorporated on December 17, 2001. Its registered office is located at 46a, Avenue John F. Kennedy, 2<sup>nd</sup> Floor, L-1855, Luxembourg, telephone (352) 2647-8978. Its agent for U.S. federal securities law purposes is Tenaris Global Services Inc., located at 2200 West Loop South, Suite 8000, Houston, TX 77027.

Tenaris began with the formation of Siderca S.A.I.C., or Siderca, the sole Argentine producer of seamless steel pipe products, by San Faustín's predecessor in Argentina in 1948. Siat, an Argentine welded steel pipe manufacturer, was acquired in 1986. We grew organically in Argentina and then, in the early 1990s, began to evolve beyond this initial base into a global business through a series of strategic investments. These investments included the acquisition, directly or indirectly, of controlling or substantial interests in steel pipe producing companies, including:

Tubos de Acero de México S.A., or Tamsa, the sole Mexican producer of seamless steel pipe products (June 1993);

Dalmine S.p.A., or Dalmine, a leading Italian producer of seamless steel pipe products (February 1996);

Tubos de Acero de Venezuela S.A., or Tavsas, the sole Venezuelan producer of seamless steel pipe products (October 1998);

Confab Industrial S.A., or Confab, the leading Brazilian producer of welded steel pipe products (August 1999);

NKK Tubes, a leading Japanese producer of seamless steel pipe products (August 2000);

Algoma Tubes Inc., or Algoma Tubes, the sole Canadian producer of seamless steel pipe products (October 2000);

S.C. Silcotub S.A., or Silcotub, a leading Romanian producer of seamless steel pipe products (July 2004);

Maverick, a leading North American producer of welded steel pipe products with operations in the U.S., Canada and Colombia (October 2006); *and*

Hydril, a leading North American manufacturer of premium connections and pressure control products for oil and gas drilling production (May 2007). For more information on the Hydril acquisition, see Item 5.G. Operating and Financial Review and Prospects Recent Developments Acquisition of Hydril Company .

In addition, we have established a global network of pipe finishing, distribution and service facilities with a direct presence in most major oil and gas markets and a global network of research and development centers.

On December 1, 2006, we sold 75% of Dalmine Energie, or DaEn, retaining the remaining 25%. Through DaEn, which was formed in 1999, we developed an energy supply business in Italy, which supplied electric energy and natural gas to our operations in Italy and to other industrial and commercial users throughout Italy.

### **Business Strategy**

Our business strategy is to continue expanding our operations worldwide and further consolidate our position as a leading global supplier of high-quality tubular products and services to the energy and other industries by:

pursuing strategic acquisition opportunities in order to strengthen our presence in local and global markets;

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expanding our comprehensive range of products and developing new high-value products designed to meet the needs of customers operating in increasingly challenging environments;

securing an adequate supply of production inputs and reducing the manufacturing costs of our core products; *and*

enhancing our range of pipe management and other value-added services designed to enable customers to reduce their overall operating costs while integrating our production activities with the customer supply chain.

### ***Pursuing strategic acquisition opportunities and alliances***

We have a solid record of growth through strategic acquisitions. We pursue selective strategic acquisitions as a means to expand our operations, enhance our global competitive position and capitalize on potential operational synergies. In October 2006, we acquired Maverick, a North American producer of steel pipe products for the energy industry, expanding our operations in North America. In May 2007, we acquired Hydril, a leading North American manufacturer of premium connections and pressure control products for oil and gas drilling production. For more information on the Hydril acquisition, see Item 5.G. Operating and Financial Review and Prospects Recent Developments Acquisition of Hydril Company .

### ***Developing high-value products***

We have developed an extensive range of high-value products suitable for most of our customers' operations using our network of specialized research and testing facilities and by investing in our manufacturing facilities. As our customers expand their operations, we seek to supply high-value products that reduce costs and enable them to operate safely in increasingly challenging environments.

### ***Securing inputs for our manufacturing operations***

We seek to secure our existing sources of raw material and energy inputs, and gain access to new sources, of low-cost inputs which can help us maintain or reduce the cost of manufacturing our core products over the long term. For example, in May 2005, we acquired Donasid, a Romanian steel producer, to secure a source of steel for our Romanian operations and reduce costs.

### ***Developing pipe management and other value-added services***

We continue to develop pipe management and other value-added services for our customers worldwide. These services seek to enable our customers to reduce costs and to concentrate on their core businesses. They are also intended to differentiate us from our competitors, further strengthen our relationships with our customers worldwide through long-term agreements and add value in the supply chain.

## **Our Competitive Strengths**

We believe our main competitive strengths include:

our global production, commercial and distribution capabilities, offering a full product range with flexible supply options backed up by local service capabilities in important oil and gas producing and industrial regions around the world;

our ability to develop, design and manufacture technologically advanced products;



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our solid and diversified customer base and historic relationships with major international oil and gas companies around the world, and our strong and stable market shares in the countries in which we have manufacturing operations;

our human resources around the world with their diverse knowledge and skills;

our low-cost operations, primarily at state-of-the-art, strategically located production facilities with favorable access to raw materials, energy and labor, and 50 years of operating experience; *and*

our strong balance sheet.

### **Business Segments**

Our business is organized in three business segments: Tubes, Projects, and Others.

Tubes includes our operations that consist in the production, distribution and sale of seamless and welded tubular products mainly for energy and select industrial applications.

Projects includes our operations that consist in the production, distribution and sale of welded pipes mainly used in the construction of major pipeline projects.

Others includes our operations that consist mainly in the production, distribution and sale of sucker rods, welded steel pipes for electric conduits, industrial equipment and raw materials, such as hot briquetted iron, or HBI, that exceed our internal requirements.

In May 2007, we acquired Hydril, a leading North American manufacturer of premium connections and pressure control products for oil and gas drilling production. For more information on the Hydril acquisition, see Item 5.G. Operating and Financial Review and Prospects Recent Developments Acquisition of Hydril Company .

### **Our Products**

Our principal finished products are seamless and welded steel casing and tubing, line pipe and various other mechanical and structural steel pipes for different uses. Casing and tubing are also known as oil country tubular goods or OCTG. In our Projects business segment we also produce large diameter welded steel pipes for oil and gas pipelines. We manufacture our steel pipe products in a wide range of specifications, which vary in diameter, length, thickness, finishing, steel grades, threading and coupling. For most complex applications, including high pressure and high temperature applications, seamless steel pipes are usually specified and, for some standard applications, welded steel pipes can also be used.

*Casing.* Steel casing is used to sustain the walls of oil and gas wells during and after drilling.

*Tubing.* Steel tubing is used to conduct crude oil and natural gas to the surface after drilling has been completed.

*Line pipe.* Steel line pipe is used to transport crude oil and natural gas from wells to refineries, storage tanks and loading and distribution centers.

*Mechanical and structural pipes.* Mechanical and structural pipes are used by general industry for various applications, including the transportation of other forms of gas and liquids under high pressure.

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*Cold-drawn pipe.* The cold-drawing process permits the production of pipe with the diameter and wall thickness required for use in boilers, superheaters, condensers, heat exchangers, automobile production and several other industrial applications.

*Premium joints and couplings.* Premium joints and couplings are specially designed connections used to join lengths of steel casing and tubing for use in high temperature or high pressure environments. A significant portion of our steel casing and tubing products are supplied with premium joints and couplings. We own an extensive range of premium connections, and hold licensing rights to manufacture and sell the Atlas Bradford range of premium connections outside of the United States. On May 7, 2007, we acquired Hydril, a leading North American manufacturer of premium connections and pressure control products for oil and gas drilling production. For more information see Item 5.G. Operating and Financial Review and Prospects Recent Developments- Acquisition of Hydril Company .

*Coiled tubing.* Coiled tubing is used for oil and gas drilling and well workovers and for subsea pipelines.

*Other Products.* We also manufacture sucker rods used in oil extraction activities, industrial equipment of various specifications and diverse applications, including liquid and gas storage equipment and welded steel pipes for electric conduits used in the construction industry. In addition, we sell raw materials, such as HBI, that exceed our internal requirements.

## **Production Process and Facilities**

We operate relatively low-cost production facilities, which we believe is the result of:

state-of-the-art, strategically located plants;

favorable access to high quality raw materials, energy and labor at competitive costs;

operating history of 50 years, which translates into solid industrial know-how;

constant benchmarking and best-practices sharing among the different facilities;

increasing specialization of each of our facilities in specific product ranges; *and*

extensive use of information technology in our production processes.

Our seamless pipes production facilities are located in North and South America, Europe and Asia and our welded pipes production facilities are located in North and South America. In addition, we manufacture welded steel pipes for electric conduits in the U.S., tubular accessories such as sucker rods (used in oil drilling) at facilities in Argentina and Brazil, couplings in U.S., Mexico, Argentina and Romania, and pipe fittings in Mexico. In addition to our pipe threading and finishing facilities at our integrated pipe production facilities, we also have a pipe threading facility in Nigeria for production of premium joints and a facility for production of premium joints and couplings in China.

The following table shows our aggregate installed production capacity of seamless and welded steel pipes and steel bars at the dates indicated as well as the aggregate actual production volumes for the periods indicated. The figures for effective annual capacity are based on our estimates of effective annual production capacity under present conditions.

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|  | At or for the year ended December 31, |       |       |
|--|---------------------------------------|-------|-------|
|  | 2006                                  | 2005  | 2004  |
| <i>Thousands of tons</i>                   |                                       |       |       |
| <b>Steel Bars</b>                          |                                       |       |       |
| Effective Capacity (annual) <sup>(1)</sup> | 3,450                                 | 3,350 | 2,950 |
| Actual Production                          | 3,107                                 | 2,881 | 2,663 |
| <b>Tubes - Seamless</b>                    |                                       |       |       |
| Effective Capacity (annual) <sup>(1)</sup> | 3,400                                 | 3,350 | 3,320 |
| Actual Production                          | 3,013                                 | 2,842 | 2,631 |
| <b>Tubes - Welded</b>                      |                                       |       |       |
| Effective Capacity (annual) <sup>(1)</sup> | 1,860                                 |       |       |
| Actual Production <sup>(2)</sup>           | 316                                   |       |       |
| <b>Projects - Welded</b>                   |                                       |       |       |
| Effective Capacity (annual) <sup>(1)</sup> | 850                                   | 850   | 850   |
| Actual Production                          | 326                                   | 476   | 366   |

(1) Effective annual production capacity is calculated based on standard productivity of production lines, theoretical product mix allocations and considering the maximum number of possible working shifts and a continued flow of supplies to the production process.

(2) Includes production from the Villa Constitución facility for eleven months and from the former Maverick facilities for three months.

**Production Facilities - Tubes****North America**

In North America, we have a fully integrated seamless pipe manufacturing facility and a pipe fittings facility in Mexico, three welded pipe manufacturing facilities, two coiled tubing facilities and a couplings manufacturing facility in the United States, and a seamless pipe rolling mill and a welded pipe manufacturing facility in Canada.

*Mexico.* In Mexico, our fully integrated seamless pipe manufacturing facility is located near the major exploration and drilling operations of Mexican state oil company Petróleos Mexicanos, or Pemex, about 13 kilometers from the port of Veracruz on the Gulf of Mexico. The Veracruz plant was inaugurated in 1954. Situated on an area of 200 hectares, the plant includes a state-of-the-art seamless pipe mill and has an installed annual production capacity of approximately 780,000 tons of seamless steel pipes (with an outside diameter range of 2 to 20 inches) and 850,000 tons of steel bars. The plant is served by two highways and a railroad and is close to the port of Veracruz, which reduces transportation costs and facilitates product shipments to export markets.

The Veracruz facility comprises:

a steel shop, including an electric arc furnace, refining equipment, four-strand continuous caster and a cooling bed;

a multi-stand pipe mill, including a continuous mandrel mill, rotary furnace, direct piercing equipment and a cooling bed;

a pilger pipe mill, including a rotary furnace, direct piercing equipment, a reheating furnace and a cooling bed;

four finishing lines, including heat treatment facilities, upsetting machines and threading and inspection equipment;

a stretch reducing mill, including cutting saws and a cooling bed;

a cold-drawing mill; *and*

automotive components production machinery.

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The major operational units at the Veracruz facility and the corresponding annual installed production capacity (in thousands of tons per year, except for the auto components facility, which is in millions of parts) as of December 31, 2006, and the year operations commenced, are as follows:

|                                       | <b>Effective</b>              |                   |
|---------------------------------------|-------------------------------|-------------------|
|                                       | <b>Production</b>             | <b>Year</b>       |
|                                       | <b>Capacity</b>               | <b>Operations</b> |
|                                       | <b>(annual)<sup>(1)</sup></b> | <b>Commenced</b>  |
| Steel Shop                            | 850                           | 1986              |
| Pipe Production Multi-Stand Pipe Mill | 700                           | 1983              |
| Pilger Mill                           | 80                            | 1954              |
| Cold-Drawing Mill                     | 15                            | 1963              |
| Auto Components Facility              | 25                            | 2004              |

(1) Effective annual production capacity is calculated based on standard productivity of production lines, theoretical product mix allocations and considering the maximum number of possible working shifts and a continued flow of supplies to the production process.

In addition to the Veracruz facility, we operate a manufacturing facility near Monterrey in the state of Nuevo León, Mexico, for the production of weldable pipe fittings. This facility has an annual production capacity of approximately 15,000 tons.

*United States.* In the United States, as part of the acquisition of Maverick in 2006, we incorporated the following production facilities:

*Hickman, Arkansas:* Our main U.S. production facility, covering an area of 78 hectares. This facility processes steel coils to produce electric resistance welded, or ERW, OCTG and line pipe with an outside diameter range from 1 1/2 to 16 inches and has an annual production capacity of approximately 900,000 tons. It includes:

A plant commissioned in 1993 comprising two mills producing 1 1/2 through 5 1/2 inches API products with three finishing lines and two heat treatment lines;

A plant commissioned in 2000 comprising two mills producing 3 1/2 through 16 inches API products with two finishing lines; *and*

A coating facility commissioned in 2001 coating sizes up to 16 inches.

*Conroe, Texas:* A plant located on an area of 47 hectares which processes steel coils to produce ERW OCTG and line pipe, with an outside diameter range of 4 to 8 5/8 inches and has an annual production capacity of approximately 250,000 tons. The facility includes one mill, one heat treatment line and one finishing line.

*Counce, Tennessee:* A plant located on an area of 54 hectares which processes steel coils to produce ERW OCTG and line pipe with an outside diameter range of 4 to 8 5/8 inches and has an annual production capacity of approximately 90,000 tons. The facility has one mill and a finishing line capable of producing line pipe products.

In addition, we have specialized facilities in the Houston area producing coiled tubing, umbilical tubing and couplings.

A coiled tubing facility commissioned in the 1990s. The facility has approximately 150,000 square feet of manufacturing space on 4 hectares. The plant consists of two mills and coating operations capable of producing coiled tubing products in various grades, sizes and

wall thicknesses.

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An umbilical tubing facility commissioned in the 1990s. The facility has approximately 85,000 square feet of manufacturing space on 6 hectares. The facility is capable of producing stainless or carbon steel tubing in various grades, sizes and wall thickness.

The Texas Arai coupling facility commissioned in 1981. The plant has an annual capacity of approximately 4.4 million couplings in OCTG sizes ranging from 2<sup>3</sup>/<sub>8</sub> through 20 inches in carbon and alloy steel grades.

*Canada.* In Canada, we have a seamless steel pipe manufacturing facility located adjacent to the Algoma Steel manufacturing complex in Sault Ste. Marie, near the mouth of Lake Superior in the province of Ontario. The facility includes a retained mandrel mill, a stretch reducing mill and heat treatment and finishing facilities producing seamless pipe products with an outside diameter range of 2 to 9<sup>7</sup>/<sub>8</sub> inches. The effective annual capacity of the facility is at approximately 250,000 tons. The plant was opened in 1986 and was operated as part of Algoma Steel until shortly before it was leased to us in 2000. In February 2004, we completed the purchase of the leased facilities, spare parts and other operating assets. Since we began operating the facility, we have sourced steel bars principally from our steel shops in Argentina and Mexico. In May 2004, we reached an agreement with QIT, a Canadian producer of titanium dioxide and high purity iron, to deliver some of the plant's steel bar requirements.

In addition, as part of the acquisition of Maverick in 2006, we incorporated the Prudential welded steel pipe manufacturing facility based in Calgary, Alberta, which processes steel coils into ERW OCTG and line pipe with an outside diameter range of 2 to 12 inches. The facility, originally commissioned in 1966, includes a slitter, three welding lines and four threading lines. The annual capacity of this plant is at approximately 400,000 tons.

### ***South America***

In South America, we have a fully integrated seamless pipe facility in Argentina and a seamless steel plant in Venezuela. In addition, we have welded pipe manufacturing facilities in Argentina and Colombia.

*Argentina.* Our principal manufacturing facility in South America is a fully integrated plant on the banks of the Paraná river near the town of Campana, approximately 80 kilometers from the City of Buenos Aires, Argentina. The Campana plant was inaugurated in 1954. Situated on over 300 hectares, the plant includes a state-of-the-art seamless pipe mill and has an effective annual production capacity of approximately 900,000 tons of seamless steel pipe (with an outside diameter range of 1<sup>1</sup>/<sub>4</sub> to 10<sup>3</sup>/<sub>4</sub> inches) and 1,300,000 tons of steel bars.

The Campana facility comprises:

a direct reduced iron, or DRI, production plant;

a steel shop with two production lines, each including an electric arc furnace, refining equipment, four-strand continuous caster and a cooling bed;

two continuous mandrel mills, each including a rotary furnace, direct piercing equipment and a cooling bed and one of them also including a stretch reducing mill;

seven finishing lines, including heat treatment facilities, upsetting machines, threading and inspection equipment and make-up facilities;

a cold-drawing mill; *and*

a port on the Paraná river for the supply of raw materials and the shipment of finished products.

In February 2003, we acquired a modern gas turbine power generation plant, located at San Nicolás, approximately 150 kilometers from Campana. The capacity of this power generation plant - 160 megawatts - together with a smaller thermo-electric power generating plant located

within the Campana facility, is sufficient to supply all of the electric power requirements of the Campana facility.



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The major operational units at the Campana facility and corresponding effective annual production capacity (in thousands of tons per year) as of December 31, 2006, and the year operations commenced are as follows:

|                        | <b>Effective</b>              |                        |
|------------------------|-------------------------------|------------------------|
|                        | <b>Production</b>             |                        |
|                        | <b>Capacity</b>               | <b>Year Operations</b> |
|                        | <b>(annual)<sup>(1)</sup></b> | <b>Commenced</b>       |
| <b>DRI</b>             | 935                           | 1976                   |
| <b>Steel Shop</b>      |                               |                        |
| Continuous Casting I   | 530                           | 1971                   |
| Continuous Casting II  | 770                           | 1987                   |
| <b>Pipe Production</b> |                               |                        |
| Mandrel Mill I         | 330                           | 1977                   |
| Mandrel Mill II        | 570                           | 1988                   |
| Cold-Drawing Mill      | 20                            | 1962                   |

(1) Effective annual production capacity is calculated based on standard productivity of production lines, theoretical product mix allocations and considering the maximum number of possible working shifts and a continued flow of supplies to the production process.

In addition to our main integrated seamless pipe facility, we also have a welded pipe manufacturing facility in Argentina located at Villa Constitución in the province of Santa Fe, which we acquired in January 2006. The facility has an annual production capacity of approximately 80,000 tons of welded pipes with an outside diameter range of 1 to 6 inches.

*Venezuela.* In Venezuela, we have a seamless steel pipe plant with an annual production capacity of approximately 80,000 tons, located in Ciudad Guayana in the eastern part of the country. The plant is situated on an area comprising 38 hectares within the Sidor C.A., or Sidor, iron and steel manufacturing complex on the banks of the Orinoco River. The plant includes a pilger mill and finishing line, including threading facilities, and produces seamless pipe products with an outside diameter range of 8 to 16 inches. The plant uses steel bars supplied by Sidor, a Ternium subsidiary, as its principal raw material. In July 2004, together with Sidor, we acquired an industrial facility, also in Ciudad Guayana, Venezuela, to produce hot briquetted iron, or HBI. The facility, which had been shut down in 2001 shortly after its start up, was restarted in October 2004. We use HBI as a raw material in some of our steelmaking operations.

*Colombia.* As part of the acquisition of Maverick in 2006, we incorporated the TuboCaribe welded pipe manufacturing facility in Cartagena, Colombia on an area of 28 hectares. The total estimated yearly capacity is 140,000 tons of tubular products complemented by 20,000 tons of electric metallic tubing. The plant produces mainly ERW OCTG and line pipe products having two mills with an outside diameter range of 2<sup>3</sup>/<sub>8</sub> to 8<sup>5</sup>/<sub>8</sub> inches, three heat treatment lines and three threading lines. Inspection lines and materials testing laboratories complete the production facility. A 2 to 42 inches diameter multilayer coating facility complements our line pipe production facilities.

**Europe**

In Europe, we have several seamless pipe manufacturing facilities in Italy and Romania.

*Italy.* Our principal manufacturing facility in Europe is an integrated plant located in the town of Dalmine in the industrial region of Bergamo, about 40 kilometers from Milan in northern Italy. Situated on an area of 150 hectares, the plant includes a state-of-the-art seamless pipe mill and has an annual production capacity of approximately 800,000 tons of seamless steel pipes and 900,000 tons of steel bars.

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The Dalmine facility comprises:

a steel shop, including an electric arc furnace, two ladle furnaces, two continuous casters and a cooling bed;

a continuous floating mandrel mill with one heat treatment and two finishing lines;

a retained mandrel mill with three finishing lines including two heat treatments;

a rotary expander with a finishing line including a heat treatment; *and*

a pilger pipe mill with a finishing line.

The major operational units at the Dalmine facility and corresponding annual effective production capacity (in thousands of tons per year) as of December 31, 2006, and the year operations commenced are as follows:

|                                       | <b>Effective<br/>Production<br/>Capacity<br/>(annual) <sup>(1)</sup></b> | <b>Year Operations<br/>Commenced</b> |
|---------------------------------------|--|--------------------------------------|
| Steel Shop                            | 900  | 1976                                 |
| Pipe Production                       |  |                                      |
| Pilger Mill                           | 110  | 1937                                 |
| Mandrel Mill:                         |  |                                      |
| Floating Mandrel Mill Small Diameter  | 140  | 1962                                 |
| Retained Mandrel Mill Medium Diameter | 550  | 1978                                 |

(1) Effective annual production capacity is calculated based on standard productivity of production lines, theoretical product mix allocations and considering the maximum number of possible working shifts and a continued flow of supplies to the production process. The Dalmine facility manufactures seamless steel pipes with an outside diameter range of 21 to 711 mm (0.75 to 28.0 inches), mainly from carbon, low alloy and high alloy steels for diverse applications. The Dalmine facility also manufactures steel bars for processing at our other facilities in Italy.

Our production facilities located in Italy have a collective annual production capacity of approximately 950,000 tons of seamless steel pipes. Aside from the main facility mentioned above, they include:

the Costa Volpino facility, which covers an area of approximately 31 hectares and comprises a cold-drawing mill and an auto components facility producing cold-drawn carbon, low alloy and high alloy steel pipes with an outside diameter range of 12 to 280 mm (0.47 to 11.00 inches), mainly for automotive, mechanical and machinery companies in Europe. The Costa Volpino facility has an annual production capacity of approximately 100,000 tons;

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the Arcore facility, which covers an area of approximately 26 hectares and comprises a Diescher mill with associated finishing lines and multiple cold pilger pipe mills for cold-pilgered pipes. Production is concentrated in heavy-wall mechanical pipes with an outside diameter range of 48 to 203 mm (1.89 to 8.00 inches). The Arcore facility has an annual production capacity of approximately 150,000 tons; *and*

the Piombino facility, which covers an area of approximately 67 hectares and comprises a welded pipe production line (Fretz Moon type) with a hot stretch reducing mill, a hot dip galvanizing line and associated finishing facilities. Production is focused on welded pipe and finishing of small diameter seamless and welded pipe for plumbing applications in the domestic market, such as residential water and gas transport. The Piombino facility has an annual production capacity of approximately 180,000 tons.

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In addition to these facilities, we operate a manufacturing facility at Sabbio, which manufactures gas cylinders with a production capacity of approximately 14,000 tons or 270,000 pieces per year.

In order to reduce the cost of electrical energy at our operations in Dalmine, we recently constructed a gas-fired, combined heat and power station with a capacity of 120 MW at Dalmine. This new facility began operations in May 2007. Our operations in Dalmine are expected to consume most of the power generated at the plant which is designed to have sufficient capacity to meet the electric power requirements of these operations at peak load. Excess power will be sold to third party consumers and heat will be sold for district heating.

*Romania.* In July 2004 we acquired a seamless steel pipe manufacturing facility in Romania, located in Zalau city, near the Hungarian border, 480 kilometers from Bucharest. The Silcotub facility includes a continuous mandrel mill and has an annual production capacity of approximately 180,000 tons of seamless steel tubes. The plant produces carbon and alloy steel tubes with an outside diameter range of 8 to 146 mm (0.314 to 5.74 inches.). In May 2005, we acquired a steelmaking facility in southern Romania, with an annual steelmaking capacity of 400,000 tons. Following investments to convert this capacity to the production of steel bars for seamless pipe production, this facility has been integrated into our Romanian and European operations and in February 2006 began to supply steel bars to the Silcotub facility as well as to Dalmine's facilities in Italy. The combined Romanian facilities comprise:

a steel shop including an electric arc furnace, a ladle furnace and a continuous caster;

a continuous mandrel;

three finishing lines, including heat treatment facilities, upsetting machine, line pipe, threading, make-up and inspection equipment facilities;

a coupling shop; *and*

a cold-drawing plant with finishing area.

### ***Far East and Oceania***

Our seamless pipe manufacturing facility in Asia, operated by NKK Tubes, is located in Kawasaki, Japan, in the Keihin steel complex owned by JFE, the successor company of NKK, resulting from the business combination of NKK with Kawasaki Steel Corporation, or Kawasaki Steel. The facility includes a floating mandrel mill, a plug mill and heat treatment, upsetting and threading facilities producing seamless pipe products with an outside diameter range of 1 to 17 inches. The effective annual capacity of the facility is at approximately 260,000 tons. The plant was operated by NKK until its acquisition by NKK Tubes in 2000. Steel bars and other essential inputs and services are supplied by JFE, which retains a 49% interest in NKK Tubes through its subsidiary JFE Engineering. The NKK Tubes facility produces a wide range of carbon, alloy and stainless steel pipes for the local market and high value-added products for export markets. For a discussion of NKK's business combination with Kawasaki Steel, see Item 4. Information on the Company Competition.

In November 2006 we began operating a newly constructed facility for the production of premium joints and couplings in Qingdao, on the east coast of China. The facility has an annual production capacity of approximately 50,000 tons of premium joints.

### ***Production Facilities - Projects***

We have two major welded pipe facilities, one in Brazil and one in Argentina, which produce pipes used in the construction of major pipeline projects. The facility in Brazil, operated by Confab, is located at Pindamonhangaba, 160 kilometers from the city of São Paulo. The facility includes an ERW (electric resistant welding) rolling mill and a SAW (submerged arc welding) rolling mill with one spiral line and one longitudinal line. The facility, which was originally opened in 1959, processes steel coils and plates to produce welded steel pipes with an outside diameter



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range of 4 1/2 to 100 inches for various applications, including oil, petrochemical and gas applications. The facility also supplies anticorrosion pipe coating made of extruded polyethylene or polypropylene, external and internal fusion bonded epoxy and paint for internal pipe coating. The facility has an annual production capacity of approximately 500,000 tons.

The facility in Argentina is located at Valentín Alsina just south of the city of Buenos Aires. The facility includes ERW and SAW rolling mills with one spiral line. The facility was originally inaugurated in 1948 and processes steel coils and plate to produce welded steel pipes with an outside diameter range of 4 1/2 to 80 inches, which are used for the conveying of fluids at low, medium and high pressure and for mechanical and structural purposes. The facility has an annual production capacity of approximately 350,000 tons.

**Production Facilities - Others**

We have facilities for the manufacture of sucker rods in Villa Mercedes, San Luis, Argentina and in Moreira Cesar, São Paulo, Brazil. In Moreira Cesar, we also have facilities for the manufacture of industrial equipment. As part of the acquisition of Maverick in 2006, we incorporated a welded steel pipe business for electric conduits with manufacturing facilities in Louisville, Kentucky and Cedar Springs, Georgia. These two plants process steel coils into conduit tubing and have a combined annual capacity of approximately 220,000 tons.

**Sales and Marketing***Net Sales*

Our total net sales amounted to \$7,728 million in 2006, \$6,210 million in 2005 and \$3,718 million in 2004. For further information on our net sales see Item 5.A. Operating and Financial Review and Prospects Results of Operations .

The following table shows our net sales by business segment for the periods indicated therein:

| <i>Millions of U.S. dollars</i> | For the year ended December 31, |             |                |             |                |             |
|---------------------------------|---------------------------------|-------------|----------------|-------------|----------------|-------------|
|                                 | 2006                            |             | 2005           |             | 2004           |             |
| Tubes                           | 6,824.3                         | 88%         | 5,124.0        | 83%         | 3,273.3        | 88%         |
| Projects                        | 453.5                           | 6%          | 790.0          | 13%         | 280.1          | 8%          |
| Others                          | 449.9                           | 6%          | 295.8          | 5%          | 164.8          | 4%          |
| <b>Total</b>                    | <b>7,727.7</b>                  | <b>100%</b> | <b>6,209.8</b> | <b>100%</b> | <b>3,718.2</b> | <b>100%</b> |
| <b>Tubes</b>                    |                                 |             |                |             |                |             |

The following table indicates, for our Tubes business segment, net sales by geographic region:

| <i>Millions of U.S. dollars</i> | For the year ended December 31, |             |                |             |                |             |
|---------------------------------|---------------------------------|-------------|----------------|-------------|----------------|-------------|
|                                 | 2006                            |             | 2005           |             | 2004           |             |
| <b>Tubes</b>                    |                                 |             |                |             |                |             |
| North America                   | 1,992.4                         | 29%         | 1,662.2        | 32%         | 1,094.1        | 33%         |
| South America                   | 960.0                           | 14%         | 838.8          | 16%         | 502.2          | 15%         |
| Europe                          | 1,314.4                         | 19%         | 1,023.9        | 20%         | 794.1          | 24%         |
| Middle East and Africa          | 1,895.3                         | 28%         | 933.0          | 18%         | 480.2          | 15%         |
| Far East and Oceania            | 662.3                           | 10%         | 666.0          | 13%         | 402.6          | 12%         |
| <b>Total Tubes</b>              | <b>6,824.3</b>                  | <b>100%</b> | <b>5,124.0</b> | <b>100%</b> | <b>3,273.3</b> | <b>100%</b> |

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*North America*

Sales to customers in North America accounted for 29% of our sales of tubular products and services in 2006, compared to 32% in 2005 and 33% in 2004. Following the acquisitions of Maverick and Hydril, sales to customers in North America are expected to increase significantly.

We have significant sales in each of Canada, the United States and Mexico. In October 2006, we acquired Maverick, a leading producer of ERW OCTG and line pipe products with operations in the U.S., Canada and Colombia, since then our overall sales in the U.S. and Canada have increased.

The use of ERW OCTG products in less complex applications, such as in shallow onshore wells, has become well established in the U.S. and Canada due to the standard product specifications required, the development of ERW technology and the marketing efforts of local ERW producers. ERW products are not, however, generally used in more complex applications.

Sales to our oil and gas customers in the U.S. and Canada are particularly sensitive to North American gas prices as the majority of drilling activity in these two countries is related to exploration and production of natural gas. These prices can be affected by issues such as available storage capacity and seasonal weather patterns. As compared to other countries, our sales in the U.S. and Canada are more sensitive to the level of inventories held by distributors due to the role that distributors have traditionally played in the steel pipe markets of these two countries.

Our sales in Canada are mainly directed to the oil and gas drilling and transportation sectors. Oil and gas drilling in Canada is subject to strong seasonality with the peak drilling season in Western Canada being during the winter months when the ground is frozen. During the spring, as the ice melts, drilling activity is severely restricted by the difficulty of moving equipment in muddy terrain. During the past three years, drilling activity has significantly increased as rising natural gas prices and declining production rates encouraged increased drilling for natural gas and rising international oil prices and technological improvements encouraged the development of projects to recover oil from Canada's extensive oil sands reserves. However, natural gas prices declined sharply in the second half of 2006, and the major exploration and production companies reacted to lower gas prices and rising costs by cutting back on their investments in natural gas drilling. This led to a considerable slowdown in gas drilling activity during the 2006-07 winter drilling season, which has affected demand for products from our recently acquired Prudential welded pipe mill in Calgary and from our seamless pipe mill in Sault Ste. Marie.

Our sales to oil and gas customers in the United States have been affected by antidumping duties which have applied since 1995 in respect of the import of OCTG products produced by our main seamless pipe manufacturing subsidiaries. On May 31, 2007, the U.S. International Trade Commission voted to revoke these antidumping duties. For further information, see Item 8.A. Financial Information U.S. Seamless Steel Pipe Antidumping and Countervailing Duty Proceedings . Sales of OCTG products in the United States have increased from a low base in the past two years as we increased production at our Canadian production facility, which has not been affected by the antidumping restrictions, and, more recently, with the acquisition of Maverick, we have been able to offer ERW OCTG products. Sales of line pipe products for deepwater oil and gas applications were not affected by the antidumping restrictions that used to affect the import of some of our seamless line pipe products from Mexico and Argentina and which have recently been removed. Our sales to the industrial sector are not affected by antidumping restrictions and are affected primarily by trends in industrial activity.

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In Mexico, we have enjoyed a long and mutually beneficial relationship with Pemex, the state-owned oil company, one of the world's largest crude oil and condensates producers. In 1994, we began supplying Pemex under just-in-time, or JIT, agreements, which allow us to provide them with comprehensive pipe management services on a continuous basis. These agreements provide for delivery of pipe to our customers on short notice, usually within 72 hours. Under JIT and stocking supply arrangements, we are kept informed of our customers' drilling program and pipe requirements. In addition, we are permitted to bring our engineers to the customers' drilling locations in order to maintain adequately supplied warehouse inventories.

In 2003, Pemex increased exploration and production activity and began to let out politically controversial multiple services contracts to operate some of its gas fields. During 2004 and 2005, sales of pipes in Mexico reached record levels, reflecting the strong growth in Pemex's exploration and production spending as well as increased activity in the industrial sector. In 2006 oil and gas exploration and development in Mexico declined as Pemex experienced budgetary constraints just as the costs of drilling rose sharply in response to a strong worldwide upturn in demand for oil and gas drilling services. Sales to non-oil related customers in Mexico are made directly to those customers or through authorized distributors. The principal Mexican end users, other than Pemex, rely on our products primarily for automotive, thermal, mechanical, conduction and hydraulic uses. Sales to these non-oil customers are primarily affected by trends in North American industrial production activity.

### *South America*

Sales to customers in South America accounted for 14% of our sales of tubular products and services in 2006, compared to 16% in 2005 and 15% in 2004.

Our largest markets in South America are Argentina and Venezuela, countries in which we have manufacturing subsidiaries. Our sales in the Argentine and Venezuelan markets are sensitive to the international price of oil and its impact on the drilling activity of participants in the domestic oil and gas sectors, as well as to general economic conditions in these countries. In addition, sales in Argentina, as well as export sales from our manufacturing facilities in Argentina, are affected by government actions and policies, including measures adopted in 2002 in response to the crisis in Argentina, such as the taxation of oil and gas exports, measures affecting gas prices in the domestic market, restrictions on certain transfers of currency abroad, mandatory repatriation of certain export revenues and other matters affecting the investment climate. Sales in Venezuela are also affected by government actions and policies and their consequences, such as nationalization and other measures relating to the taxation and ownership of oil and gas production activities, general strikes, agreements to vary domestic production pursuant to quotas established by OPEC, and other matters affecting the investment climate. See Item 3.D. Risk Factors Risks Relating to Our Business .

A principal component of our marketing strategy in the Argentine and Venezuelan markets is the establishment of long-term supply agreements with significant local and international oil and gas companies operating in those markets. In recent years, we have sought to retain and expand our sales to those customers by offering value-added services.

In Argentina, we have enjoyed a sustained, close business relationship with Repsol YPF S.A., or Repsol YPF, an integrated oil and gas company engaged in all aspects of the oil and gas business. We have strengthened our relationship with Repsol YPF and other participants in the Argentine oil sector through JIT agreements, similar to our JIT agreement with Pemex.

In the past three years, demand from oil and gas customers in Argentina has remained steady but growth in demand has been affected by government actions including the application of additional taxes on the export of oil and gas and the freezing of domestic gas tariffs for consumers. We also serve the demand for steel pipes for other applications in the Argentine market. Demand from this sector has increased in the past two years in response to increased economic activity, particularly in the agricultural sector and in import substitution.



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In Venezuela, we have a significant share of the market for OCTG products. We enjoy ongoing business relationships with Petróleos de Venezuela S.A., or PDVSA, the state-owned oil company, and many private-sector operators in the oil and gas sector. Over the past few years there has been increased government intervention in the Venezuelan oil and gas industry. Following a general strike which ended in early 2004 many employees of PDVSA were dismissed. In 2006, laws were passed which obliged private sector participants in the oil and gas sector to surrender majority control of their oil and gas drilling concessions to PDVSA. In 2004, drilling activity was severely affected by the general strike but subsequently recovered. In 2006, apparent consumption of OCTG products did not keep pace with drilling activity as PDVSA drew down its inventories of such products.

In addition, we have growing sales in Colombia, where, with the acquisition of Maverick, we recently incorporated a manufacturing facility. Sales in Colombia and in other countries in the region such as Ecuador and Peru are sensitive to the international price of oil and gas and its impact on the drilling activity of participants in the local oil and gas sectors, as well as to general economic conditions and government actions and policies in these countries.

### *Europe*

Sales to customers in Europe accounted for 19% of our sales of tubular products and services in 2006, compared to 20% in 2005 and 24% in 2004.

Our single largest country market in Europe is Italy. The market for steel pipes in Italy (as in most of the EU) is affected by general industrial production trends, especially in the mechanical and automotive industry, and by investment in power generation, petrochemical and oil refining facilities. Our customers in Europe include large engineering companies active in designing and constructing oil and gas processing facilities worldwide. The European market also includes the North Sea and Scandinavia area, which is affected by oil and gas prices in the international markets and their consequent impact on oil and gas drilling activities in that area.

Industrial production in Eastern European countries has been growing more rapidly in recent years than in Western European countries, as European manufacturers take advantage of lower costs in Eastern European countries to expand their production activities in those countries. With the acquisition of Silcotub in Romania in July 2004, we are improving our ability to serve customers in Eastern Europe as well as in areas such as the Caspian Sea, and the Commonwealth of Independent States (CIS).

### *Middle East and Africa*

Sales to customers in the Middle East and Africa accounted for 28% of our sales of tubular products and services in 2006, compared to 18% in 2005 and 15% in 2004.

Our sales in the Middle East and Africa are sensitive to international prices of oil and gas and their impact on drilling activities as well as to the production policies pursued by OPEC, many of whose members are located in this region. In the past three years, drilling activity has increased significantly in this region as oil and gas producing countries in the region, led by Saudi Arabia, increased investments in exploration and production with the objective of increasing oil production capacity and developing gas reserves to fuel regional gas-based industrial development and export gas in the form of liquefied natural gas, or LNG. In addition, international oil companies have been increasing investments in exploration and production in deepwater projects in offshore West Africa.

Our sales in the Middle East and Africa could be adversely affected by political and other events in the region, such as armed conflict, terrorist attacks and social unrest, that could materially impact the operations of companies active in the region's oil and gas industry.

### *Far East and Oceania*

Sales to customers in the Far East and Oceania accounted for 10% of our sales of tubular products and services in 2006, compared to 13% in 2005 and 12% in 2004.

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Our largest markets in the Far East and Oceania are China and Japan. Our sales in China are concentrated on OCTG products used in Chinese oil and gas drilling activities, tubes used in boilers for power generation facilities and tubes used for the manufacturing of gas cylinders. Although apparent consumption of pipes in China has increased significantly during the past three years, most of this increase has been met by higher sales of pipes produced by local producers, who have been increasing their production capacity. Imports of high-value pipe products not manufactured by local producers increased during 2004 and 2005 but declined marginally in 2006.

In Japan, our subsidiary, NKK Tubes, competes against other domestic producers. The market for steel pipe products in Japan is mostly industrial and depends on general factors affecting domestic investment, including production activity. In the past three years, demand has recovered due to improving economic conditions and strong demand of construction machinery export business for China.

Sales to other markets in the Far East and Oceania are affected by the level of oil and gas drilling activity in countries such as Indonesia and engineering activity particularly related to investment in petrochemical plants and oil refineries.

### ***Projects***

We are a leading regional supplier of welded pipes for gas pipeline construction in South America, where we have manufacturing facilities in Brazil and Argentina. We also supply welded steel pipes to regional mineral slurry pipeline projects for the mining industry and to selected gas pipeline construction projects worldwide. Demand and shipments for our welded steel pipes in this business segment is principally affected by investment in gas pipeline projects in Brazil, Argentina and the rest of South America. These investments can vary significantly from year to year and can be affected by political and financial conditions in the region. In 2006, shipments of our pipes for pipeline projects declined significantly from relatively high levels in the previous year as there were delays in the definition of large pipeline infrastructure projects in Brazil and Argentina. In 2005, on the other hand, demand for welded pipes for gas pipeline projects undertaken by Petrobras in Brazil had increased significantly as did demand in Argentina for welded pipes for loops, or capacity expansions, in the gas pipeline network due to increased demand for natural gas in the recovering Argentine economy. However, plans to implement further expansions of the pipeline network in Argentina have been delayed.

### ***Others***

Our other products and services include sucker rods used in oil extraction activities, welded steel pipes for electric conduits, industrial equipment of various specifications and for diverse applications, including liquid and gas storage equipment and sales of raw materials and energy that exceed our internal requirements, including HBI from our facility in Venezuela and steam from our power generation plant in Argentina.

On December 1, 2006, we sold a 75% interest in DaEn, retaining the remaining 25%. Through DaEn, which was formed in 1999, we developed an energy supply business in Italy, which supplied electric energy and natural gas to our operations in Italy and to other industrial and commercial users throughout Italy.

In May 2007, we acquired Hydril, a leading North American manufacturer of premium connections and pressure control products for oil and gas drilling production. For more information on the Hydril acquisition, see Item 5.G. Operating and Financial Review and Prospects Recent Developments Acquisition of Hydril Company .

### **Competition**

The global market for steel pipe products is highly competitive. Seamless steel pipe products, which are used extensively in the oil and gas industry particularly for high pressure, high stress and other complex applications, are produced in specialized mills using round steel billets and specially produced ingots. Welded steel pipe products are produced in mills which process steel coils and plates into steel pipes. Steel companies that manufacture steel coils and other steel products but do not operate specialized seamless steel mills are generally not competitors in the market for seamless steel pipe products, although they often produce welded steel pipes or sell steel coils and plates used to produce welded steel pipe.

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The production of steel pipe products following the stringent requirements of major oil and gas companies requires the development of specialized skills and significant investments in manufacturing facilities. By contrast, steel pipe products for standard applications can be produced in most seamless pipe mills worldwide and sometimes compete with welded pipe products for such applications including OCTG applications. Welded pipe, however, is not generally considered a satisfactory substitute for seamless steel pipe in high-pressure or high-stress applications.

Our principal competitors in steel pipe markets worldwide can be grouped by origin as described below.

*Japan.* Sumitomo Metal Industries Ltd. and JFE (the seamless pipe business of the former Kawasaki Steel) in the aggregate enjoy a significant share of the international market, having established strong positions in markets in the Far East and the Middle East. They are internationally recognized for the high quality of their products and for their supply of high-alloy grade pipe products. On September 27, 2002, Kawasaki Steel and NKK, our partner in NKK Tubes, consummated a business combination and merger, through which they became subsidiaries of JFE. JFE continues to operate the former Kawasaki Steel's seamless steel pipe business in competition with NKK Tubes.

*Western Europe.* Vallourec & Mannesman Tubes, or V&M Tubes, a Franco-German venture, has mills in Brazil, France, Germany and the United States. V&M Tubes has a strong presence in the European market for seamless pipes for industrial use and a significant market share in the international market with customers primarily in Europe, the United States, Brazil and the Middle East. V&M Tubes is an important competitor in the international OCTG market, particularly for high-value premium joint products. In May 2002, V&M Tubes purchased the seamless tubes division of North Star Steel, a leading U.S. producer of OCTG products for the domestic market, which was renamed V&M Star. Tubos Reunidos S.A. of Spain and Voest Alpine AG of Austria each has a significant presence in the European market for seamless steel pipes for industrial applications, while the latter also has a presence in the international OCTG market.

*United States.* U.S. steel pipes producers, including US Steel Corporation, Ipsco and Lone Star Technologies, which has recently been acquired by US Steel Corporation, are largely focused on supplying the U.S. and Canadian markets, where they have their production facilities.

*Eastern Europe, CIS and China.* Producers from these regions compete primarily in the commodity sector of the market and have been increasing their participation in markets worldwide for standard products where quality and service are not the prime consideration. In recent years, TMK, a Russian company, has led consolidation of the Russian steel pipe industry and has expanded through acquisitions into Eastern Europe. Also in recent years, producers in China have increased production capacity more quickly than the growth of local demand and have increased their exports of steel pipe products.

Producers of steel pipe products can maintain strong competitive positions in markets where they have their pipe manufacturing facilities due to logistical and other advantages that permit them to offer value-added services and maintain strong relationships with domestic customers, particularly in the oil and gas sectors. Our subsidiaries have established strong ties with major consumers of steel pipe products in their home markets, reinforced by JIT arrangements, as discussed above.

### **Capital Expenditure Program**

During 2006, our capital expenditures, including investments at our plants and investments in information systems, amounted to \$441.5 million, up from \$284.5 million in 2005 and \$183.3 million in 2004. Investment at our plants amounted to \$414.4 million in 2006, up from \$264.4 million in 2005 and \$163.2 million in 2004. Our capital investment program has continued to focus on the expansion of our capacity to produce high value products. As a result, we have been able to increase the proportion of heat-treated and high value-added proprietary premium joint products within our product sales mix. During 2006 we also invested to further extend our geographical reach. The major highlights of our capital spending program during 2006 include:

construction of a premium connection threading and coupling facility in China where operations commenced in November 2006;



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completion of the construction of a power generation facility at our Dalmine facility in Italy where operations commenced in May 2007;

construction of additional heat treatment facilities in our seamless pipe facilities in Mexico and Argentina;

extension of the rolling mill size range up to 9 7/8 inches (from a previous maximum of 7 inches) at our seamless pipe mill in Canada, and improvements to inspection and finishing areas and the administration building;

construction of a new R&D laboratory at our Veracruz facility in Mexico;

installation of new testing machines and improvements to finishing and inspection facilities at our Campana facility in Argentina;

improvements to inspection lines and expansion of heat treatment capacity at our seamless pipe facility in Romania;

revamping of steel-making facilities and improvements to the building infrastructure at our steel shop in Romania;

initiated construction of a new coupling shop and expansion of cold drawing facilities at our Veracruz facility in Mexico;

revamping of the ERW line at our Brazilian welded pipe facility; *and*

consolidation of high-chromium production processes at NKK Tubes.

Capital expenditures in 2007 are expected to maintain the level observed in 2006. Major projects planned for 2007 include:

improvements in plant, processes and equipment at our recent acquisitions;

completion of the additional heat treatment facilities at our seamless pipe facilities in Mexico and Argentina;

completion of a new coupling shop and cold drawn expansion at our Veracruz facility in Mexico;

construction of new quality and R&D laboratories at our Dalmine facility in Italy;

construction of a corporate university campus at our Campana facility in Argentina; *and*

expansion of the auto components facilities at our Veracruz facility in Mexico and installation of a components facility at our Zalau facility in Romania;



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In addition to capital expenditures at our plants, we have invested in information systems for the integration of our production, commercial and managerial activities. These investments are intended to promote the further integration of our operating facilities and enhance our ability to provide value-added services to customers worldwide. Investments in information systems totaled \$26.1 million in 2006, compared to \$19.3 million in 2005 and \$20.0 million in 2004.

**Subsidiaries**

We conduct all our operations through subsidiaries. The following table shows the major operating subsidiaries of the Company and its direct and indirect ownership of each as of December 31, 2006, 2005 and 2004. For a complete list of our subsidiaries and a description of our investments in other companies, see AP B and note 32 to our consolidated financial statements included in this annual report.

| Company                               | Country of<br>Organization | Main Activity                                       | Percentage Ownership |      |      |
|---------------------------------------|----------------------------|---|----------------------|------|------|
|                                       |                            |   | 2006                 | 2005 | 2004 |
| Alcoma Tubes Inc.                     | Canada                     | Manufacture of seamless steel pipes                 | 100%                 | 100% | 100% |
| Confab Industrial S.A. <sup>(a)</sup> | Brazil                     | Manufacture of welded steel pipes and capital goods | 39%                  | 39%  | 39%  |
| Dalmine S.p.A.                        | Italy                      | Manufacture of seamless steel pipes                 | 99%                  | 99%  | 99%  |
| Exiros S.A.                           | Uruguay                    | Procurement services for industrial companies       | 100%                 | 100% | 100% |
| Maverick Tube Corporation             | U.S.A.                     | Manufacture of welded steel pipes                   | 100%                 |      |      |
| NKKTubes                              | Japan                      | Manufacture of seamless steel pipes                 | 51%                  | 51%  | 51%  |
| Precision Tube Technology, L.P.       | U.S.A.                     | Manufacture of coiled tubing                        | 100%                 |      |      |
| Prudential Steel Ltd.                 | Canada                     | Manufacture of welded steel pipes                   | 100%                 |      |      |
| S.C. Silcotub S.A.                    | Romania                    | Manufacture of seamless steel pipes                 | 97%                  | 85%  | 85%  |
| Seacat, L.P.                          | U.S.A.                     | Manufacture of coiled tubing                        | 100%                 |      |      |
| Siat S.A.                             | Argentina                  | Manufacture of welded steel pipes                   | 82%                  | 82%  | 82%  |
| Siderca S.A.I.C.                      | Argentina                  | Manufacture of seamless steel pipes                 | 100%                 | 100% | 100% |
| Tenaris Financial Services S.A.       | Uruguay                    | Financial services                                  | 100%                 | 100% | 100% |
| Tenaris Global Services S.A.          | Uruguay                    | Holding company and marketing of steel pipes        | 100%                 | 100% | 100% |
| Tenaris Investments Ltd.              | Ireland                    | Holding company and financial services              | 100%                 | 100% | 100% |
| Tubos de Acero de México S.A.         | Mexico                     | Manufacture of seamless steel pipes                 | 100%                 | 100% | 100% |
| Tubos de Acero de Venezuela S.A.      | Venezuela                  | Manufacture of seamless steel pipes                 | 70%                  | 70%  | 70%  |
| Tubos del Caribe Ltda.                | Colombia                   | Manufacture of welded steel pipes                   | 100%                 |      |      |

(a) Tenaris holds 99% of the voting shares of Confab Industrial S.A.

**Other Investments****Ternium**

We have a significant investment in Ternium, one of the leading steel producers of the Americas with production facilities in Argentina, Mexico and Venezuela. Ternium is a company that was formed by San Faustin in a reorganization of its flat and long steel interests. Ternium was listed on the New York Stock Exchange on February 1, 2006, following an initial public offering of ADSs. As of May 31, 2007, we held 11.5% of its outstanding shares.

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We acquired our investment in Ternium through the exchange of our prior indirect investments in Sidor, a Venezuelan integrated steel producer, which became a subsidiary of Ternium under the corporate reorganization of the San Faustin's interests in flat and long steel. That reorganization had involved San Faustin's controlling participations in Sidor, Siderar S.A.I.C., or Siderar, an Argentine integrated steel producer, and Hylsamex, S.A. de C.V., or Hylsamex, a Mexican steel producer.

On January 9, 2006, the Company entered into a shareholders' agreement with Inversora Siderurgica Limited, or ISL, a company controlled by San Faustin, pursuant to which ISL will take all actions in its power to cause one of the members of Ternium's board of directors to be one nominated by the Company and any directors nominated by the Company only be removed pursuant to written instructions by the Company. The Company and ISL also agreed to cause any vacancies on the board of directors to be filled with new directors nominated by either the Company or ISL, as applicable. On April 27, 2007, ISL assigned all of its rights and obligations under the shareholders' agreement to its sole shareholder I.I.I. CI, another company controlled by San Faustin which holds 59.1% of Ternium. The shareholders' agreement will remain in effect as long as each of the parties holds at least 5% of the shares of Ternium or until it is terminated by either the Company or I.I.I. CI pursuant to its terms. Carlos Condorelli, our chief financial officer, was nominated as a director of Ternium pursuant to this agreement.

### **Raw Materials and Energy**

We manufacture both seamless and welded steel pipe products. The majority of our seamless steel pipe products are manufactured in integrated steel making operations using the electric arc furnace route, with the principal raw materials being steel scrap, DRI, including HBI, pig iron and ferroalloys. We process the majority of our DRI requirements at facilities in Argentina and Venezuela from iron ore using natural gas as a reductant. Our integrated steel making operations consume significant quantities of electric energy, a significant portion of which we generate in our own facilities. Our welded steel pipe products are processed from purchased steel coils and plates.

#### *Steel scrap, pig iron and DRI*

Steel scrap, pig iron and DRI for our integrated steelmaking operations are sourced from local and international sources. In Argentina, we produce our own DRI and source ferrous scrap domestically through a 75% owned scrap collecting and processing subsidiary. In Italy, we purchase pig iron and ferrous scrap as well as special metals for certain products from European and international markets. In Mexico, we import most of our pig iron and DRI requirements and purchase scrap from domestic and international markets.

To secure an additional source of DRI for our steelmaking operations, we have invested in two facilities in Ciudad Guayana, Venezuela, which reduce locally-supplied iron ore into HBI using natural gas as a reductant. In the 1990s, we entered into a long-term off-take contract under which we are committed to purchase 75,000 tons per year of HBI from *Complejo Siderúrgico de Guayana C.A.*, or Comsigua. We hold a 6.9% equity interest in Comsigua. The off-take contract has a term of 20 years from April 1998 but can be terminated with one year's notice at any time after the completion of ten years. More recently, in July 2004, jointly with Sidor, a Ternium subsidiary, we formed Matesi, and acquired a Venezuelan iron reduction plant. We own 50.2% of Matesi and Sidor owns the remaining 49.8%. The facility, located in Ciudad Guayana, Venezuela, has an annual design capacity in excess of one million tons.

International prices for steel scrap, pig iron and DRI can vary substantially in accordance with supply and demand conditions in the international steel industry. Our costs for these materials increased substantially in 2004 and have fluctuated since with an upwards tendency.



**Table of Contents***Ferroalloys*

At each of our steel shops we coordinate our purchases of ferroalloys worldwide. The international costs of ferroalloys can vary substantially. Our costs of ferroalloys increased substantially in 2004 and 2005 but declined slightly in 2006 in line with international prices for these materials.

*Iron ore*

We consume iron ore, in the form of pellets and lump ore, for the production of DRI in Argentina and Venezuela. Our annual consumption of iron ore in Argentina ranges between 1,000,000 and 1,500,000 tons and is supplied from Brazil primarily by *Companhia Vale do Rio Doce* and *Samarco Mineração S.A* under one-year fixed price contracts. Iron ore for the production of DRI in Venezuela is supplied by CVG Ferrominera Orinoco C.A., the Venezuelan state-owned iron ore mining company, under a long-term supply contract which establishes annual price adjustments in accordance with international prices. Our costs of iron ore have increased substantially over the past three years in line with international prices.

*Round steel bars*

We purchase round steel bars and ingots for use in our seamless steel pipe facilities in Japan, Venezuela and Canada. In Japan, we purchase these materials from JFE, our partner in NKK Tubes, and in Venezuela, we purchase these materials from Sidor, a Ternium subsidiary. In both cases, these purchases are made under supply arrangements pursuant to which the purchase price varies in relation to changes in the costs of production. As a result of their location within a larger production complex operated by the supplier, our operations in Japan and Venezuela are substantially dependent on these contracts for the supply of raw materials and energy. JFE uses imported iron ore, coal and ferroalloys as principal raw materials for producing steel bars at Keihin and Sidor uses domestic iron ore and domestic and imported ferroalloys as its principal raw materials.

In Canada, we mainly use steel bars produced in our integrated facilities in Argentina and Mexico, but we also purchase a limited quantity of round steel bars from QIT, a Canadian producer of titanium dioxide and high purity iron.

*Steel coils and plates*

For the production of welded steel pipe products, we purchase steel coils and steel plates principally from domestic producers for processing into welded steel pipes. We have welded pipe operations in Argentina, Brazil, Canada, Colombia and the U.S. For our welded pipe operations in the U.S. and Canada, a significant part of our requirements for steel coils are supplied under long-term contracts with prices set at market levels. Our principal suppliers include Nucor, which has a steel coil manufacturing facilities in Hickman, Arkansas, near to our principal welded pipe facility in the U.S., and Ipsco, which has steel coil manufacturing facilities in Regina, Saskatchewan, Canada. To secure a supply of steel coils for our Hickman facility, we entered into a five year purchase contract with Nucor under which we have committed to purchase around 435,000 tons of steel coils per year with prices adjusted quarterly in accordance with market conditions starting in January 2007. Steel coil prices in the U.S. and Canada significantly increased in 2004 reaching a peak in excess of \$800 per ton since when they have fluctuated in the range of \$500-700 per ton. We purchase steel coils and plates for our welded pipe operations in Brazil and Argentina principally from Usiminas and Siderar, a subsidiary of Ternium.

*Energy*

We consume substantial quantities of electric energy at our electric steel shops in Argentina, Italy, Mexico and Romania. In Argentina, we have owned sufficient generating capacity to supply the requirements of our integrated steelmaking facility at Campana since we acquired a 160 MW electric power generating facility in 2003. In Italy, we began operations at a newly constructed 120 MW power generation in May 2007, which is designed to meet the electric power requirements of our steelmaking facility at Dalmine. Prior to this start up, our electric power and natural gas requirements in Italy were supplied by DaEn, in which we sold a 75% participation to E.ON Sales and Trading GmbH, an indirect subsidiary of E.ON A.G. in December 2006. In Mexico, our electric power requirements are furnished by the Mexican government-owned *Comisión Federal de Electricidad*, or the Federal Electric Power Commission.

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We consume substantial volumes of natural gas in Argentina, particularly in the generation of DRI and to operate our power generation facilities. Repsol YPF is our principal supplier of natural gas in Argentina. Tecpetrol S.A., or Tecpetrol, a subsidiary of San Faustin, supplies us with the balance of our natural gas requirements on terms and conditions that are equivalent to those with Repsol YPF.

We have transportation capacity agreements with Transportadora de Gas del Norte S.A., or TGN, a company in which San Faustin holds significant but non-controlling interest, corresponding to capacity of 1,000,000 cubic meters per day until April 2017. We expect to obtain additional gas transportation capacity of 315,000 cubic meters per day until 2027 when the enlargement of the trunk pipelines in Argentina is completed. In order to meet our transportation requirements for natural gas above volumes contracted with TGN, we also have agreements with Gas Natural Ban S.A., or Gasban, for transportation capacity currently corresponding to approximately 970,000 cubic meters per day. The 315,000 cubic meters per day of assigned non-interruptible transportation capacity from TGN is expected to partially replace the capacity currently contracted with Gasban. For the final transportation phase, we have a supply contract with Gasban that expires in May 2009.

We have also begun to consume substantial quantities of natural gas in Italy in connection with the operation of our new power generation facility which began operations in May 2007. Our natural gas requirements in Italy are currently supplied by DaEn. Natural gas for our HBI plant in Venezuela is supplied by the state-owned PDVSA Gas.

Our costs for electric energy and natural gas vary from country to country. These costs have increased over the past three years particularly for our Italian operations. We expect our energy costs in Argentina, which remain at low levels, to continue to increase. The costs of natural gas for industrial use in Argentina increased significantly during 2005 from a low base driven by increased local demand as the local economy continues to recover and by governmental policies which subsidize residential consumption of natural gas at the expense of industrial users. During 2006 they remained stable but are expected to increase significantly again in 2007. During the past two years, availability of natural gas has been impacted as demand continues to outpace supply. See Item 3. D. Risk Factors related to our industry - Increases in the cost of raw materials and energy may hurt our profitability .

## **Product Quality Standards**

Our steel pipes are manufactured in accordance with the specifications of the American Petroleum Institute, or API, the American Society for Testing and Materials, or ASTM, the International Standardization Organization, or ISO, and the Japan Standard, or JIS. The products must also satisfy our proprietary standards as well as our customers' requirements. We maintain an extensive quality assurance and control program to ensure that our products continue to satisfy proprietary and industry standards and are competitive from a product quality standpoint with products offered by our competitors.

We currently maintain, for all our pipe manufacturing facilities, the Quality Management System Certification ISO 9001:2000 granted by Lloyd Register Quality Assurance-Italy, and the API Q1 Quality Certification granted by API-U.S., which are requirements for selling to the major oil and gas companies, which have rigorous quality standards. The ISO 9001 and API Q1 specifications assure that the product complies with customer requirements from the acquisition of raw material to the delivery of the final product, and are designed to ensure the reliability and improvement of both the product and the processes associated with the manufacturing operations.

All our mills involved in the manufacturing of material for the automotive market are additionally certified according to the standard ISO/TS 16949 by Lloyd Register Quality Assurance-UK.

## **Research and Development**

Research and development, or R&D, of new products and processes to meet the increasingly stringent requirements of our customers is an important aspect of our business.

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R&D activities are carried out primarily at our specialized research facilities located at our Campana plant in Argentina, a newly constructed facility at our Veracruz plant in Mexico, at the research facilities of the *Centro Sviluppo Materiali S.p.A.*, or CSM, in Rome and at the product testing facilities of NKK Tubes in Japan. We have an 8% interest in CSM, which was acquired in 1997.

Product development and research currently being undertaken include:

proprietary premium joint products including Dopeless technology;

heavy wall deep water line pipe and risers;

tubes and components for the car industry and mechanical applications; *and*

tubes for boilers.

In addition to R&D aimed at new or improved products, we continuously study opportunities to optimize our manufacturing processes. Recent projects in this area include the design of a new quenching device for heavy wall pipes and modeling of rolling and finishing process, with the goal of improving product quality.

We spent \$46.9 million for R&D in 2006, compared to \$34.7 million in 2005 and \$26.3 million in 2004.

## **Environmental Regulation**

We are subject to a wide range of local, provincial and national laws, regulations, permits and decrees in the countries where we have manufacturing operations concerning, among other things, human health, discharges to the air and water and the handling and disposal of solid and hazardous wastes. Compliance with these environmental laws and regulations is a significant factor in our business.

We have not been fined for any material environmental violation in the last five years, and we are not aware of any current material legal or administrative proceedings pending against us with respect to environmental matters which could have an adverse material impact on our financial condition or results of operations.

## **Insurance**

We carry property, accident, fire, third party liability (including employer's, third-party and product liability) and certain other insurance coverage in line with industry practice. Our current general liability coverage includes third party, employers, sudden and accidental seepage and pollution and product liability, with caps of approximately \$100 million. Our current property insurance program has indemnification caps ranging from \$25 million to \$150 million for direct damage, depending on the value of the different plants. Additionally, we carry out business interruption coverage for certain parts of our business which is ancillary to the property and machinery breakdown coverage. The total combined limit for property damage and business interruption is \$ 250 million. In some cases, insurers have the option to replace damaged or destroyed plant and equipment rather than to pay us the insured amount.

## **Item 4A. Unresolved Staff Comments.**

None.

## **Item 5. Operating and Financial Review and Prospects**

## Edgar Filing: TENARIS SA - Form 20-F

The following discussion and analysis of our financial condition and results of operations are based on, and should be read in conjunction with, our audited consolidated financial statements and the related notes included elsewhere in this annual report. This discussion and analysis presents our financial condition and results of operations on a

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consolidated basis. We prepare our consolidated financial statements in conformity with IFRS, which differ in certain significant respects from U.S. GAAP. See note 33 to our consolidated financial statements included in this document, which includes a description of the principal differences between IFRS and U.S. GAAP as they relate to our consolidated financial statements and a reconciliation of net income and shareholders' equity for the periods and at dates indicated.

Certain information contained in this discussion and analysis and presented elsewhere in this annual report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. See **Cautionary Statement Concerning Forward-Looking Statements** . In evaluating this discussion and analysis, you should specifically consider the various risk factors identified in this annual report and others that could cause results to differ materially from those expressed in such forward-looking statements.

### **Overview**

*We are a leading global manufacturer and supplier of steel pipe products and related services for the energy industry and other industries.*

We are a leading global manufacturer and supplier of steel pipe products and related services for the world's energy industry as well as for other industrial applications. Our customers include most of the world's leading oil and gas companies as well as engineering companies engaged in constructing oil and gas gathering and processing facilities. In the last fifteen years, we have expanded our business globally through a series of strategic investments, and, in the last twelve months, we have transformed our presence in the North American market through the acquisitions of Maverick , a leading North American producer of steel pipe products for the oil and gas industry with operations in the U.S., Canada and Colombia, and Hydril, a leading North American manufacturer of premium connection and pressure control products for the oil and gas industry. We now operate an integrated worldwide network of steel pipe manufacturing, research, finishing and service facilities with industrial operations in North and South America, Europe, Asia and Africa and a direct presence in most major oil and gas markets.

*Our main source of revenue is the sale of products and services to the oil and gas industry, and the level of such sales is sensitive to international oil and gas prices and their impact on drilling activities.*

Demand for our products and services from the global oil and gas industry, particularly for tubular products and services used in drilling operations, represents a substantial majority of our total sales. Our sales, therefore, depend on the condition of the oil and gas industry and our customers' willingness to invest capital in oil and gas exploration and development as well as in associated downstream processing activities. The level of these expenditures is sensitive to oil and gas prices as well as the oil and gas industry's view of such prices in the future. Over the past three years, persistently high oil and gas prices, combined with expectations that prices will remain high, have encouraged oil and gas companies to increase their spending and drilling activity to offset declining rates of production from mature fields and to explore and develop new reserves. Drilling activity has risen worldwide and is expected to continue to rise as production from large mature fields declines and the average size of new fields being discovered becomes smaller. In 2006, the annual average of the global count of active drilling rigs, published by Baker Hughes, rose 13% on a comparable basis compared to 2005 and was 43% higher on the same basis than in 2003. See Item 5.D. **Operating and Financial Review and Prospects** **Trend Information** .

A growing proportion of exploration and production spending by oil and gas companies is being directed at offshore, deep drilling and non-conventional drilling operations in which high-value tubular products, including special steel grades and premium connections, are usually specified. Technological advances in drilling techniques and materials are opening up new areas for exploration and development. As drilling conditions become more complex, demand for new and high value products and services is increasing in most areas of the world.

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*Our business is highly competitive.*

The global market for steel pipes is highly competitive, with the primary competitive factors being price, quality, service and technology. We sell our products in a large number of countries worldwide and compete primarily against European and Japanese producers in most markets outside North America. In the United States and Canada we compete against a wide range of local and foreign producers. Competition in markets worldwide has been increasing, particularly for products used in standard applications, as producers in countries like China and Russia increase production capacity and seek to enter export markets.

*Our production costs are sensitive to prices of steelmaking raw materials and other steel products.*

We purchase substantial quantities of steelmaking raw materials, including ferrous steel scrap, direct reduced iron (DRI), pig iron, iron ore and ferroalloys, for use in our production of our seamless pipe products. In addition, we purchase substantial quantities of steel coils and plate for use in the production of our welded pipe products and such purchases have significantly increased since we acquired Maverick. Our production costs, therefore, are sensitive to prices of steelmaking raw materials and certain steel products, which reflect supply and demand factors in the global steel industry and in the countries where we have our manufacturing facilities. In recent years, the costs of steelmaking raw materials have increased significantly due to increased global demand for steel products in general. Likewise, the cost of purchasing steel coils and plate has also increased. In the past three years, due to strong market demand for our steel pipe products and services, we were able to offset the impact of raw material cost increases through increases in average selling prices. However, we can give no assurances that this will continue to be the case and increases in steelmaking raw materials and steel coils and plate could affect our operating margins.

*We expect our sales will continue to rise in 2007 largely due to the effect of the acquisitions of Maverick and Hydril.*

We believe that the factors that have led to increased global drilling activity and increased demand for high-value tubular products and services from the oil and gas industry over the past three years remain in place and will continue to do so for a number of years. However, we expect that the rate of growth in drilling activity will slow down in 2007, particularly in North America where lower gas prices in the second half of 2006 led to a decline in drilling activity in Canada and slowing activity in the U.S. Nevertheless, we expect that our sales in 2007 will rise as a result of the consolidation of Maverick for a full year, the consolidation of Hydril following its acquisition on May 7, 2007 and higher sales of pipes for pipeline projects following the receipt of orders for large gas pipeline projects in Brazil and Argentina which had previously been delayed.

## **Critical Accounting Estimates**

This discussion of our operating and financial review and prospects is based on our audited consolidated financial statements, which have been prepared in accordance with IFRS. The application of U.S. GAAP would have affected the determination of consolidated net income for the years ended December 31, 2006, 2005 and 2004, and the determination of consolidated shareholders' equity as of December 31, 2006 and 2005. See note 33 to our audited consolidated financial statements included in this annual report for a reconciliation of our results of operations and shareholders' equity presented under IFRS to U.S. GAAP.

The preparation of these financial statements and related disclosures in conformity with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Management evaluates its accounting estimates and assumptions, including those related to: impairment of long-term investments and intangible assets; assets lives; obsolescence of inventory; doubtful accounts; loss contingencies and revises them when appropriate. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Although management believes that our estimates and assumptions are reasonable, they are based upon information available at the time they are made. Actual results may differ significantly from these estimates under different assumptions or conditions.

Our most critical accounting estimates are those that are most important to the portrayal of our financial condition and results of operations, and which require us to make our most difficult and subjective judgments, often as a result

of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates and judgments are the following:

### ***Accounting for business combinations***

We use the purchase method to account for our business combinations. The cost of an acquired company is assigned to the identifiable tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires us to make estimates and use valuation techniques, including the use of independent valuers,

when market value is not readily available. Any excess of purchase price over the fair value of the identifiable tangible and intangible assets acquired is allocated to goodwill.

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***Impairment and recoverability of goodwill and other assets***

Assessment of the recoverability of the carrying value of goodwill and other assets require a great deal of judgment. We evaluate goodwill allocated to the operating units for impairment on an annual basis. The carrying value of other assets is evaluated whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Goodwill is tested at the level of the cash generating units, or CGU. Impairment testing of the CGU is carried out and the value in use determined in accordance with the discounted cash flow method. In order to perform the test, we use projections for the next 5 years based on past performance and expectations of market development. After the fifth year a perpetuity rate with no grow up increase was utilized. The discount rates used for these tests are based on our weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. Discount rates used range from 9% to 12%.

No impairment charge resulted from the impairment tests performed.

As explained in note 28.a. to our consolidated financial statements, we acquired Maverick on October 5, 2006. Goodwill of \$1,113 million arose from this acquisition as the difference between the purchase price paid and the fair value on the acquisition date of the identifiable tangible and intangible assets and liabilities determined mainly by an independent valuation. On account of the recent date of the transaction, the company's fair value is the same as its transaction value. Accordingly, no impairment was recorded.

We also test our investments in associated companies for impairment. In 2004, as a result of improved economic conditions and based on projections calculated by Amazonia's management, we reversed an impairment provision recorded in previous years on its investment in Sidor. For the purpose of conducting our impairment tests, Amazonia's management determined the fair value of Sidor using the discounted cash flow method using market based parameters. See notes 12 and 28.c. to our audited consolidated financial statements for further reference on our investment in Amazonia.

Although we believe our estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets which has been tested for impairment may be significantly different from current expectations. In such an event, the carrying value of goodwill, investments in associates and deferred taxes may be different from amounts currently recorded and materially affect asset values and results of operations.

***Reassessment of Plant and Equipment Asset Lives***

Fixed assets are stated at cost less accumulated depreciation, which is provided for by charges to income over the estimated useful lives of the assets using the straight-line method. Estimating useful lives for depreciation is particularly difficult as the service lives of assets are also impacted by maintenance and changes in technology, and our ability to adapt technological innovation to the existing asset base. In accordance with IAS No. 16, *Property, Plant and Equipment*, the residual value and the useful life of an asset must be reviewed at least at each financial year-end, and, if expectations differ from previous estimates, for the change to be treated as a change in an accounting estimate. Management's reassessment of asset useful lives did not materially affect depreciation expense for 2006. However, if management's estimates prove incorrect, the carrying value of plant and equipment and its useful lives may be different from amounts currently recorded and materially affect asset values and results of operations.



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***Inventory Reserves: Allowance for Obsolescence of Supplies and Spare Parts and Slow-Moving Inventory***

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value taking into consideration assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

In relation to finished goods, we make an allowance for slow-moving inventory based on management's analysis of their ageing and market conditions. For this purpose, stocks of finished goods produced by us or purchased from third parties, more than one year prior to the reporting date, are valued at their estimated recoverable value. Prior to January 1, 2004, inventory for goods produced by us or purchased from third parties more than two years before the reporting date were revalued at their estimated recoverable value.

In addition, we estimate the recoverability of inventories of supplies and spare parts, based in part on the following criteria:

analysis of the ageing of the supplies and spare parts; *and*

analysis of the potential of materials to be used as intended based on their state of condition and of their potential obsolescence due to technological changes in the mills.

Historically, losses due to obsolescence and scrapping of inventory have been within expectations and the allowances established. If, however, circumstances were to materially change, such as significant changes related to the technology used in the mills, management's estimates of the recoverability of the value of aged inventories could be materially affected. In this case, our results of operations, financial condition and net worth could be materially and adversely affected.

***Allowances for Doubtful Accounts and Customer Claims***

Management estimates the ultimate collectibility of accounts receivable. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, negatively impacting their ability to make payments, additional allowances may be required.

Trade account receivables are analyzed on a regular basis and when we become aware of a customer's inability to meet its financial commitments to us, the value of the receivable is reduced through a charge to an allowance for doubtful accounts. In addition, we also record a charge to the allowance for doubtful accounts upon receipt of customer claims in connection with sales that management estimates are unlikely to be collected in full.

In addition, except for some minor subsidiaries, our allowance for doubtful accounts is adjusted periodically in accordance with the ageing of overdue accounts. For this purpose, trade accounts receivable overdue by more than 180 days, and which are not covered by a credit collateral, guarantee or similar surety, are fully provisioned.

Historically, losses from uncollectible accounts receivables have been within expectations and in line with the allowances established. If, however, circumstances were to materially change, such as higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligation to us, management's estimates of the recoverability of amounts due could be materially reduced. In this case, our results of operations, financial condition and net worth could be materially and adversely affected.

**Table of Contents*****Loss Contingencies***

We are subject to various claims, lawsuits and other legal proceedings, including customer claims, in which a third party is seeking payment for alleged damages, reimbursement for losses or indemnity. Our potential liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Management with the assistance of legal counsels periodically reviews the status of each significant matter and assesses potential financial exposure. If a potential loss from a claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Accruals for loss contingencies reflect a reasonable estimate of the losses to be incurred based on information available to management as of the date of preparation of the financial statements, and take into consideration our litigation and settlement strategies. These estimates are primarily constructed with the assistance of legal counsel. However, if management's estimates prove incorrect, current reserves could be inadequate and we could incur a charge to earnings which could have a material adverse effect on our results of operations, financial condition and net worth. As the scope of liabilities becomes better defined, there may be changes in the estimates of future costs which could have a material adverse effect on our results of operations, financial conditions and net worth.

***Net Income and Shareholders' Equity Information on a U.S. GAAP Basis***

IFRS differ in significant respects from U.S. GAAP. Under U.S. GAAP, net income would have been \$1,957.3 million, \$1,295.5 million, and \$730.3 million for the years ended December 31, 2006, 2005 and 2004, respectively. This compares with net income attributable to equity holders of the Company under IFRS of \$1,945.3 million, \$1,277.5 million, and \$784.7 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Shareholders' equity as determined in accordance with U.S. GAAP would have been \$5,265.8 million and \$3,413.6 million at December 31, 2006 and 2005, respectively. These values compare with shareholders' equity under IFRS of \$5,338.6 million and \$3,507.8 million at December 31, 2006 and 2005, respectively.

The principal differences between IFRS and U.S. GAAP that affected our results of operations were:

differences in the basis of the calculation of the deferred income tax related to assets and liabilities that are remeasured from local currency into the functional currency;

differences in the accounting for investments in associated companies;

differences in the recognition of prior period service costs related to pension benefits;

differences in accounting for changes in the fair value of certain financial assets;

differences in the amortization of goodwill, including the treatment of negative goodwill;

differences in the accounting of direct costs relating to the exchange offers; *and*

the effects on deferred taxes and minority interest on the above reconciling items.

For a discussion of the principal differences between IFRS and U.S. GAAP as they relate to our consolidated net income and shareholders equity, see note 33 to our audited consolidated financial statements included in this annual report.

**A. Results of Operations**

The following discussion and analysis of our financial condition and results of operations are based on our audited consolidated financial statements included elsewhere in this annual report. Accordingly, this discussion and analysis present our financial condition and results of operations on a consolidated basis. See *Presentation of Certain Financial and Other Information Accounting Principles Tenaris and AP A and B* to our audited consolidated financial statements included in this annual report. The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes included in this annual report.

**Table of Contents***Thousands of U.S. dollars (except number of shares and per share amounts)*

|  | <b>For the year ended December 31,</b> |               |               |
|--|--|---------------|---------------|
|  | <b>2006</b>                            | <b>2005</b>   | <b>2004</b>   |
| <b>Selected consolidated income statement data<sup>(1)</sup></b>         |  |               |               |
| <b>IFRS</b>  |  |               |               |
| Net sales  | 7,727,745                              | 6,209,791     | 3,718,193     |
| Cost of sales  | (3,884,226)                            | (3,429,365)   | (2,378,474)   |
| Gross profit   | 3,843,519                              | 2,780,426     | 1,339,719     |
| Selling, general and administrative expenses                             | (1,054,806)                            | (832,315)     | (661,226)     |
| Other operating income (expenses), net                                   | 3,773                                  | (2,199)       | 127,165       |
| Operating income   | 2,792,486                              | 1,945,912     | 805,658       |
| Interest income  | 60,798                                 | 23,815        | 14,236        |
| Interest expense   | (92,576)                               | (52,629)      | (46,161)      |
| Other financial results  | 26,826                                 | (79,772)      | 38,304        |
| Income before equity in earnings of associated companies and income tax  | 2,787,534                              | 1,837,326     | 812,037       |
| Equity in earnings of associated companies                               | 94,667                                 | 117,377       | 206,141       |
| Income before income tax   | 2,882,201                              | 1,954,703     | 1,018,178     |
| Income tax   | (869,977)                              | (567,368)     | (217,226)     |
| Income for continuing operations <sup>(2)</sup>                          | 2,012,224                              | 1,387,335     | 800,952       |
| Income (loss) for discontinued operations                                | 47,180                                 | (3)           | 4,029         |
| Income for the year <sup>(2)</sup>                                       | 2,059,404                              | 1,387,332     | 804,981       |
| Income attributable to <sup>(2)</sup> :                                  |  |               |               |
| Equity holders of the Company  | 1,945,314                              | 1,277,547     | 784,703       |
| Minority interest  | 114,090                                | 109,785       | 20,278        |
| Income for the year <sup>(2)</sup>                                       | 2,059,404                              | 1,387,332     | 804,981       |
| Depreciation and amortization  | (255,004)                              | (214,227)     | (208,119)     |
| Weighted average number of shares outstanding                            | 1,180,536,830                          | 1,180,536,830 | 1,180,506,876 |
| Basic and diluted earnings per share for continuing operations           | 1.61                                   | 1.08          | 0.66          |
| Basic and diluted earnings per share                                     | 1.65                                   | 1.08          | 0.66          |
| Dividends per share <sup>(3)</sup>                                       | 0.30                                   | 0.30          | 0.17          |
| <b>U.S. GAAP</b>   |  |               |               |
| Net sales  | 8,230,796                              | 6,736,197     | 4,136,063     |
| Operating income   | 2,814,130                              | 1,956,718     | 823,527       |
| Income before cumulative effect of accounting changes                    | 1,957,316                              | 1,295,465     | 730,339       |
| Cumulative effect of accounting changes                                  |  |               |               |
| Net income   | 1,957,316                              | 1,295,465     | 730,339       |
| Weighted average number of shares outstanding                            | 1,180,536,830                          | 1,180,536,830 | 1,180,506,876 |
| Basic and diluted earnings per share before effect of accounting changes | 1.66                                   | 1.10          | 0.62          |
| Cumulative effect of accounting changes per share                        |  |               |               |
| Basic and diluted earnings per share                                     | 1.66                                   | 1.10          | 0.62          |

(1) Certain comparative amounts for 2005 and 2004 have been re-presented to conform to changes in presentation for 2006, mainly due to the sale of a majority ownership in Dalmine Energie. See accounting policy C. Segment information and note 30. Discontinued operations to our consolidated financial statements included in this annual report.

(2) International Accounting Standard No. 1 ( IAS 1 ) (revised), requires that income for the year as shown on the income statement not exclude minority interest. Earnings per share, however, continue to be calculated on the basis of income attributable solely to the equity holders of the Company.

(3) Dividends per share correspond to the dividends proposed or paid in respect of the year.



**Table of Contents***Thousands of U.S. dollars (except number of shares and per share amounts)*

|   | <b>At December 31,</b> |               |
|---|------------------------|---------------|
|   | <b>2006</b>            | <b>2005</b>   |
| <b>Selected consolidated balance sheet data</b>                   |                        |               |
| <b>IFRS</b>   |                        |               |
| Current assets  | 6,028,832              | 3,773,284     |
| Property, plant and equipment, net                                | 2,939,241              | 2,230,038     |
| Other non-current assets  | 3,627,169              | 702,706       |
| Total assets  | 12,595,242             | 6,706,028     |
| Current liabilities   | 2,765,504              | 1,699,101     |
| Non-current borrowings  | 2,857,046              | 678,112       |
| Deferred tax liabilities  | 991,945                | 353,395       |
| Other non-current liabilities                                     | 279,117                | 199,547       |
| Total liabilities   | 6,893,612              | 2,930,155     |
| Capital and reserves attributable to the Company's equity holders | 5,338,619              | 3,507,802     |
| Minority interest   | 363,011                | 268,071       |
| Total liabilities and equity                                      | 12,595,242             | 6,706,028     |
| Number of shares outstanding                                      | 1,180,536,830          | 1,180,536,830 |
| <b>U.S. GAAP</b>  |                        |               |
| Total assets  | 12,479,239             | 6,557,751     |
| Net assets  | 5,629,990              | 3,683,010     |
| Total shareholders' equity  | 5,265,802              | 3,413,593     |
| Number of shares outstanding                                      | 1,180,536,830          | 1,180,536,830 |
| Equity holders' equity per share                                  | 4.46                   | 2.89          |

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The following table sets forth our operating and other costs and expenses as a percentage of net sales for the periods indicated.

| <i>Percentage of net sales</i>  | <b>For the year ended<br/>December 31,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2006</b>                                | <b>2005</b> | <b>2004</b> |
| Net sales   | 100.0                                      | 100.0       | 100.0       |
| Cost of sales   | (50.3)                                     | (55.2)      | (64.0)      |
| Gross profit  | 49.7                                       | 44.8        | 36.0        |
| Selling, general and administrative expenses                            | (13.6)                                     | (13.4)      | (17.8)      |
| Other operating income (expenses), net                                  | 0.0  | (0.0)       | 3.4         |
| Operating income  | 36.1                                       | 31.3        | 21.7        |
| Interest income   | 0.8  | 0.4         | 0.4         |
| Interest expense  | (1.2)                                      | (0.8)       | (1.2)       |
| Other financial results   | 0.3  | (1.3)       | 1.0         |
| Income before equity in earnings of associated companies and income tax | 36.1                                       | 29.6        | 21.8        |
| Equity in earnings of associated companies                              | 1.2  | 1.9         | 5.5         |
| Income before income tax  | 37.3                                       | 31.5        | 27.4        |
| Income tax  | (11.3)                                     | (9.1)       | (5.8)       |
| Income for continuing operations  | 26.0                                       | 22.3        | 21.5        |
| Income (loss) for discontinued operations                               | 0.6  | (0.0)       | 0.1         |
| Income for the year   | 26.6                                       | 22.3        | 21.6        |
| Income attributable to:   |  |             |             |
| Equity holders of the Company   | 25.2                                       | 20.6        | 21.1        |
| Minority interest   | 1.5  | 1.8         | 0.5         |
| <i>Segment reporting</i>  |  |             |             |

Following the acquisition of Maverick and the sale of a 75% interest in DaEn, our Italian energy supply business, we reassessed the definition of our business segments. Starting with these financial statements for the year 2006, we changed our segment reporting into three business segments: Tubes, Projects, and Others.

Tubes, or tubular products and services, includes the operations that consist in the production, distribution and sale of seamless and welded tubular products mainly for energy and select industrial applications.

Projects, or pipes for pipeline projects, includes the operations that consist in the production, distribution and sale of welded pipes mainly used in the construction of major pipeline projects.

Others, or other products and services, includes the operations that consist mainly in the production, distribution and sale of sucker rods, hot briquetted iron, electrical conduit steel and metallic structures.

Comparative amounts have been re-presented to conform to this new disclosure.

*Fiscal Year Ended December 31, 2006, Compared to Fiscal Year Ended December 31, 2005*

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### *Net Sales*

The following table shows our net sales by business segment for the periods indicated below:

| <i>Millions of U.S. dollars</i> | <b>For the year ended December 31,</b> |      |             |      | <b>Increase /</b> |
|---------------------------------|--|------|-------------|------|-------------------|
|                                 | <b>2006</b>                            |      | <b>2005</b> |      | <b>(Decrease)</b> |
| Tubes                           | 6,824.3                                | 88%  | 5,124.0     | 83%  | 33%               |
| Projects                        | 453.5                                  | 6%   | 790.0       | 13%  | (43)%             |
| Others                          | 449.9                                  | 6%   | 295.8       | 5%   | 52%               |
| Total                           | 7,727.7                                | 100% | 6,209.8     | 100% | 24%               |



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The following table indicates our sales volume of seamless and welded pipes by business segment for the periods indicated below:

| <i>Thousands of tons</i> |                         | For the year ended December 31, |              | Increase / |
|--------------------------|-------------------------|---------------------------------|--------------|------------|
|                          |                         | 2006                            | 2005         | (Decrease) |
| Tubes                    | Seamless                | 2,919                           | 2,870        | 2%         |
| Tubes                    | Welded                  | 297                             |              |            |
| <b>Tubes</b>             | <b>Total</b>            | <b>3,216</b>                    | <b>2,870</b> | <b>12%</b> |
| Projects                 | Welded                  | 281                             | 501          | (44)%      |
| <b>Total</b>             | <b>Tubes + Projects</b> | <b>3,497</b>                    | <b>3,371</b> | <b>4%</b>  |

*Tubes*

The following table indicates, for our Tubes business segment, net sales by geographic region, cost of sales as a percentage of net sales, operating income and operating income as a percentage of net sales for the periods indicated below:

| <i>Millions of U.S. dollars</i>      |                      | For the year ended December 31, |                | Increase / |
|--------------------------------------|----------------------|---------------------------------|----------------|------------|
|                                      |                      | 2006                            | 2005           | (Decrease) |
| Net sales                            |                      |                                 |                |            |
| -                                    | North America        | 1,992.4                         | 1,662.2        | 20%        |
| -                                    | South America        | 960.0                           | 838.8          | 14%        |
| -                                    | Europe               | 1,314.4                         | 1,023.9        | 28%        |
| -                                    | Middle East & Africa | 1,895.3                         | 933.0          | 103%       |
| -                                    | Far East & Oceania   | 662.3                           | 666.0          | (1)%       |
| <b>Total net sales</b>               |                      | <b>6,824.3</b>                  | <b>5,124.0</b> | <b>33%</b> |
| <b>Cost of sales (% of sales)</b>    |                      | <b>47%</b>                      | <b>53%</b>     |            |
| <b>Operating income</b>              |                      | <b>2,670.5</b>                  | <b>1,701.5</b> | <b>57%</b> |
| <b>Operating income (% of sales)</b> |                      | <b>39%</b>                      | <b>33%</b>     |            |

*Net sales of tubular products and services* rose 33% to \$6,824.3 million in 2006, compared to \$5,124.0 million in 2005, due primarily to an increase in the average selling price of our tubular products and services and the incorporation of sales from the former Maverick energy products division in the fourth quarter. Sales increased in the Middle East and Africa as there was strong demand for our specialized OCTG products and services, particularly in Saudi Arabia but more generally throughout the region, where there has been a sustained increase in investment in oil and gas drilling activity. In North America, excluding sales from the former Maverick operations, sales declined primarily due to lower demand for our OCTG products and services in Mexico, where drilling activity was impacted by oilfield cost inflation and budgetary constraints of the Mexican state-oil company Pemex, as well as lower sales of line pipe products for process and power plant construction to engineering companies in the U.S. and Canada. In South America, an increase in average selling prices offset a decline in sales of OCTG products in Venezuela as PDVSA reduced its stock of tubular inventories during the year. In Europe, there was an increase in sales of line pipe products to European-based process and power plant contractors and of OCTG products and services for the North Sea and a reduction in sales of tubes to industrial and automotive customers. In the Far East and Oceania, although the average selling price of our products increased, sales volumes of line pipe products to process and power plant customers in China and throughout the region declined, as did sales of industrial products in Japan and OCTG products throughout the region.

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*Operating income from tubular products and services* rose 57% to \$2,670.5 million in 2006, from \$1,701.5 million in 2005, reflecting the increase in sales and an increase in the gross margin.

*Projects*

The following table indicates, for our Projects business segment, net sales, cost of sales as a percentage of net sales, operating income and operating income as a percentage of net sales for the periods indicated below:

| <i>Millions of U.S. dollars</i> | <b>For the year ended December 31,</b> |             | <b>Increase /<br/>(Decrease)</b> |
|---------------------------------|--|-------------|----------------------------------|
|                                 | <b>2006</b>                            | <b>2005</b> |                                  |
| Net sales                       | 453.5                                  | 790.0       | (43)%                            |
| Cost of sales (% of sales)      | 72%                                    | 66%         |                                  |
| Operating income                | 56.3                                   | 179.6       | (69)%                            |
| Operating income (% of sales)   | 12%                                    | 23%         |                                  |

*Net sales of pipes for pipeline projects* declined 43% to \$453.5 million in 2006, compared to \$790.0 million in 2005, due to lower sales volumes. Regional demand for pipes for pipeline projects in South America was strong in 2005 due to a significant number of projects in Brazil. In 2006, demand in the region was affected as large pipeline projects planned in Brazil and Argentina were delayed. Sales to projects outside South America increased with sales made to pipeline projects in North America and Africa.

*Operating income from pipes for pipeline projects* decreased 69% to \$56.3 million in 2006, from \$179.6 million in 2005, due primarily to the decrease in shipments, higher logistics costs and higher administrative costs expressed as a percentage of net sales.

*Others*

The following table indicates, for our Others business segment, net sales, cost of sales as a percentage of net sales, operating income and operating income as a percentage of net sales for the periods indicated below:

| <i>Millions of U.S. dollars</i> | <b>For the year ended December 31,</b> |             | <b>Increase /<br/>(Decrease)</b> |
|---------------------------------|--|-------------|----------------------------------|
|                                 | <b>2006</b>                            | <b>2005</b> |                                  |
| Net sales                       | 449.9                                  | 295.8       | 52%                              |
| Cost of sales (% of sales)      | 73%                                    | 64%         |                                  |
| Operating income                | 65.7                                   | 64.8        | 1%                               |
| Operating income (% of sales)   | 15%                                    | 22%         |                                  |

*Net sales of other products and services* rose 52% to \$449.9 million in 2006, compared to \$295.8 million in 2005, as sales of the principal product categories (HBI, sucker rods, metallic structures) included in this segment all increased and the sales of conduit pipes from the former Maverick electrical products division were included from the fourth quarter.

*Operating income from other products and services* rose 1% to \$65.7 million in 2006, from \$64.8 million in 2005, due to higher sales. The operating margin decreased due primarily to a reduction in margins on sales of hot briquetted iron. These sales represented around 40% of total sales in this segment in 2006.

*Selling, general and administrative expenses*, or SG&A, increased marginally as a percentage of net sales to 13.6% in 2006 compared to 13.4% in 2005. Total SG&A rose to \$1,054.8 million in 2006, from \$832.3 million in 2005, due to higher labor costs, higher commission, freight and other selling expenses (reflecting higher sales) and increased charges for amortization of intangible assets relating principally to assets acquired in connection with the Maverick acquisition. SG&A, as a proportion of net sales, is expected to increase in 2007 reflecting additional costs for the amortization of customer relationships and other intangibles pursuant to the acquisitions of Maverick and Hydril.

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*Net interest expenses* totaled \$31.8 million in 2006, compared to net interest expenses of \$28.8 million in 2005. Net interest expenses increased substantially in the fourth quarter of 2006 reflecting the change in net debt position following the acquisition of Maverick. Net interest expenses are expected to be substantially higher in 2007 reflecting a higher net debt position following the Maverick and Hydril acquisitions.

*Other financial results* contributed a gain of \$26.8 million in 2006, compared to a loss of \$79.8 million during 2005. These results largely reflect gains and losses on net foreign exchange transactions and the fair value of derivative instruments and are to a large extent offset by changes to our net equity position. They arise due to the fact that most of our subsidiaries prepare their financial statements in currencies other than the US dollar in accordance with IFRS.

*Equity in earnings of associated companies* generated a gain of \$94.7 million in 2006, compared to a gain of \$117.4 million in 2005. These gains were derived mainly from our equity investment in Ternium and our former indirect equity investment in Sidor, prior to its exchange for an investment in Ternium in September 2005.

*Income tax charges* of \$870.0 million were recorded during 2006, equivalent to 31% of income before equity in earnings of associated companies and income tax, compared to income tax charges of \$567.4 million, equivalent to 31% of income before equity in earnings of associated companies and income tax, during 2005.

*Income from discontinued operations* amounted to \$47.2 million in 2006, compared to a breakeven result in 2005. A gain of \$40.0 million was recorded on the sale of a 75% participation in DaEn.

*Income for the year* rose 48% to \$2,059.4 million, or 27% of net sales, in 2006, compared to \$1,387.3 million, or 22% of net sales, in 2005 reflecting an increase in operating income and an improvement in other financial results, which was partially offset by a proportionate increase in income tax charges.

*Income attributable to equity holders in the Company* was \$1,945.3 million in 2006, compared to \$1,277.5 million in 2005.

*Income attributable to minority interest* was \$114.1 million in 2006, compared to \$109.8 million in 2005. Higher income attributable to minority interest at our NKK Tubes subsidiary more than offset a decline in income attributable to minority interest at our Confab subsidiary.

**Fiscal Year Ended December 31, 2005, Compared to Fiscal Year Ended December 31, 2004***Net Sales*

The following table shows our net sales by business segment for the periods indicated below:

| <i>Millions of U.S. dollars</i> | <b>For the year ended December 31,</b> |             |                |             | <b>Increase /<br/>(Decrease)</b> |
|---------------------------------|--|-------------|----------------|-------------|----------------------------------|
|                                 | <b>2005</b>                            |             | <b>2004</b>    |             |                                  |
| Tubes                           | 5,124.0                                | 83%         | 3,273.3        | 88%         | 57%                              |
| Projects                        | 790.0                                  | 13%         | 280.1          | 8%          | 182%                             |
| Others                          | 295.8                                  | 5%          | 164.8          | 4%          | 79%                              |
| <b>Total</b>                    | <b>6,209.8</b>                         | <b>100%</b> | <b>3,718.2</b> | <b>100%</b> | <b>67%</b>                       |

The following table indicates our sales volume of seamless and welded pipes by business segment for the periods indicated below:

| <i>Thousands of tons</i> | <b>For the year ended December 31,</b> |             | <b>Increase /<br/>(Decrease)</b> |
|--------------------------|--|-------------|----------------------------------|
|                          | <b>2005</b>                            | <b>2004</b> |                                  |
| Tubes Seamless           | 2,870                                  | 2,646       | 8%                               |
| Tubes Welded             |  |             |                                  |

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|              |                         |              |              |            |
|--------------|-------------------------|--------------|--------------|------------|
| <b>Tubes</b> | <b>Total</b>            | <b>2,870</b> | <b>2,646</b> | <b>8%</b>  |
| Projects     | Welded                  | 501          | 316          | 59%        |
| <b>Total</b> | <b>Tubes + Projects</b> | <b>3,371</b> | <b>2,963</b> | <b>14%</b> |

**Table of Contents***Tubes*

The following table indicates, for our Tubes business segment, net sales by geographic region, cost of sales as a percentage of net sales, operating income and operating income as a percentage of net sales for the periods indicated below:

| <i>Millions of U.S. dollars</i>      | <b>For the year ended December 31,</b> |                | <b>Increase /<br/>(Decrease)</b> |
|--------------------------------------|--|----------------|----------------------------------|
|                                      | <b>2005</b>                            | <b>2004</b>    |                                  |
| Net sales                            |  |                |                                  |
| - North America                      | 1,662.2                                | 1,094.1        | 52%                              |
| - South America                      | 838.8                                  | 502.2          | 67%                              |
| - Europe                             | 1,023.9                                | 794.1          | 29%                              |
| - Middle East & Africa               | 933.0                                  | 480.2          | 94%                              |
| - Far East & Oceania                 | 666.0                                  | 402.6          | 65%                              |
| <b>Total net sales</b>               | <b>5,124.0</b>                         | <b>3,273.3</b> | <b>57%</b>                       |
| <b>Cost of sales (% of sales)</b>    | <b>53%</b>                             | <b>63%</b>     |                                  |
| <b>Operating income</b>              | <b>1,701.5</b>                         | <b>751.0</b>   | <b>127%</b>                      |
| <b>Operating income (% of sales)</b> | <b>33%</b>                             | <b>23%</b>     |                                  |

*Net sales of tubular products and services* increased by 57%, to \$5,124.0 million in 2005, compared to \$3,273.3 million in 2004, reflecting strong market demand for our products, particularly for high-end products used in demanding applications. Average selling prices for our products rose significantly in all regions. Sales almost doubled in the Middle East and Africa region reflecting increased sales of specialized OCTG products and services in the Middle East, particularly in Saudi Arabia, and higher sales of flowlines and risers for West Africa deepwater projects. In North America, sales increased due to higher prices and higher sales of OCTG products in Canada, including specialized products for SAGD projects, and in the U.S. In South America, sales increased reflecting higher levels of drilling activity in the region, particularly in Venezuela and Ecuador. In Europe, a decline in regional sales volumes was offset by an increase in average selling prices reflecting a reallocation of mill capacity from lower margin industrial products to satisfy increased demand elsewhere from the energy sector. In the Far East and Oceania, sales of OCTG products and services increased, particularly in Indonesia and China.

*Operating income from tubular products and services* rose 127% to \$1,701.5 million in 2005, from \$751.0 million, reflecting the increase in sales and an increase in the gross margin.

*Projects*

The following table indicates, for our Projects business segment, net sales, cost of sales as a percentage of net sales, operating income and operating income as a percentage of net sales for the periods indicated below:

| <i>Millions of U.S. dollars</i> | <b>For the year ended December 31,</b> |             | <b>Increase /<br/>(Decrease)</b> |
|---------------------------------|--|-------------|----------------------------------|
|                                 | <b>2005</b>                            | <b>2004</b> |                                  |
| Net sales                       | 790.0                                  | 280.1       | 182%                             |
| Cost of sales (% of sales)      | 66%                                    | 66%         |                                  |
| Operating income                | 179.6                                  | 37.0        | 385%                             |
| Operating income (% of sales)   | 23%                                    | 13%         |                                  |

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*Net sales of pipes for pipeline projects* increased 182% to \$790.0 million in 2005, compared to \$280.1 million in 2004, due to higher sales volumes reflecting increased demand from gas pipeline projects in Brazil and Argentina and higher average selling prices.

*Operating income from pipes for pipeline projects* increased 385% to \$179.6 million in 2005, from \$37.0 million, due primarily to the increase in shipments, lower logistics costs and lower administrative expenses expressed as a percentage of net sales.

*Others*

The following table indicates, for our Others business segment, net sales, cost of sales as a percentage of net sales, operating income and operating income as a percentage of net sales for the periods indicated below:

| <i>Millions of U.S. dollars</i> | <b>For the year ended December 31,</b> |             | <b>Increase /<br/>(Decrease)</b> |
|---------------------------------|--|-------------|----------------------------------|
|                                 | <b>2005</b>                            | <b>2004</b> |                                  |
| Net sales                       | 295.8                                  | 164.8       | 79%                              |
| Cost of sales (% of sales)      | 64%                                    | 72%         |                                  |
| Operating income                | 64.8                                   | 17.7        | 267%                             |
| Operating income (% of sales)   | 22%                                    | 11%         |                                  |

*Net sales of other products and services* rose 79% to \$295.8 million in 2005, compared to \$164.8 million in 2004, due to the addition of sales of pre-reduced hot briquetted iron, HBI, from the plant in Venezuela that we acquired in July 2004 and higher sales of sucker rods used in oil extraction.

*Operating income from other products and services* rose 267% to \$64.8 million in 2005, from \$17.7 million in 2004, due to higher sales and higher gross margins.

*Selling, general and administrative expenses, or SG&A*, declined as a percentage of net sales to 13.4% in 2005, compared to 17.8% in 2004, but increased in absolute terms to \$832.3 million compared to \$661.2 million. SG&A increased in absolute terms due to higher labor costs, higher export and financial transaction taxes and higher commission, freight and other selling expenses. These increases were related primarily to higher activity in terms of net sales and higher salary costs.

*Other operating income and expenses.* We recorded a loss of \$2.2 million in 2005, compared to a gain of \$127.2 million in 2004. The result in 2004 included a gain of \$123.0 million recorded following the conclusion of an arbitration award, pursuant to which Fintecna, an Italian state-owned company, was required to compensate us for losses incurred in respect of a litigation settled in 2003 with a consortium led by BHP Billiton Petroleum Ltd.

*Net interest expenses* totaled \$28.8 million in 2005, compared to net interest expenses of \$31.9 million in 2004. A decrease in the net debt position offset the impact of increases in interest rates.

*Other financial results* showed a loss of \$79.8 million in 2005, compared to a gain of \$38.3 million in 2004. These gains and losses recorded on net foreign exchange transactions and the changes in the fair value of derivative instruments were to a large extent offset by changes to our net equity position and arise due to the fact that most of our subsidiaries prepare their financial statements in currencies other than the U.S. dollar in accordance with IFRS.

*Equity in earnings (losses) of associated companies* generated a gain of \$117.4 million in 2005, compared to a gain of \$206.1 million in 2004. These gains were derived mainly from our equity investment in Sidor which was exchanged for an equity investment in Ternium in September 2005. The gain of \$206.1 million recorded in 2004 included non-recurring gains of \$135.0 million in respect of the conversion of a subordinated loan into equity and the reversal of an impairment provision.

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*Income tax* charges of \$567.4 million were recorded during 2005, equivalent to 31% of income before equity in earnings of associated companies and income tax, compared to income tax charges of \$217.2 million, equivalent to 27% of income before equity in earnings of associated companies and income tax, during 2004. Income tax charges in 2004, expressed as a percentage of income before equity in earnings of associated companies and income tax, were positively impacted by receipt of other operating income which was not subject to income tax. Excluding such non-recurring untaxed income, income tax charges in 2004 would have been equivalent to 32% of income before equity in earnings of associated companies and income tax.

*Discontinued operations* generated a breakeven result in 2005 compared to a gain of \$4.0 million in 2004.

*Income for the year* rose 72% to \$1,387.3 million, or 22% of net sales, in 2005 compared to \$805.0 million, or 22% of net sales, in 2004. Net income in 2004 included a one-time gain of \$123.0 million in respect of the Fintecna arbitration award and non-recurring income of \$135.0 million in respect of our equity investment in Sidor. Excluding these gains from 2004 results, net income increased 154% reflecting increased operating income.

*Income attributable to equity holders of the Company* rose to \$1,277.5 million in 2005, compared to \$784.7 million in 2004 reflecting the improvement in net income partially offset by the increase in net income attributable to minority interest.

*Income attributable to minority interest* increased to \$109.8 million in 2005 compared to \$20.3 million in 2004, reflecting an improvement in operating and financial results at Confab, in which minority interests hold 61% of the total shares and NKKTubes, in which minority interests hold 49% of the shares.

**B. Liquidity and Capital Resources**

The following table provides certain information related to our cash generation and changes in our cash and cash equivalents position for each of the last three years:

*Millions of U.S. dollars*

|   | <b>For the year ended<br/>December 31,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2006</b>                                | <b>2005</b> | <b>2004</b> |
| Net cash provided by operating activities           | 1,810.9                                    | 1,295.3     | 98.3        |
| Net cash used in investing activities               | (2,822.0)                                  | (292.8)     | (213.4)     |
| Net cash provided by (used in) financing activities | 1,700.7                                    | (604.1)     | 170.6       |
| Increase in cash and cash equivalents               | 689.5                                      | 398.4       | 55.4        |
| Effect of exchange rate changes                     | (5.1)                                      | (11.6)      | 0.3         |
| Cash and cash equivalents at the beginning of year  | 680.6                                      | 293.8       | 238.0       |
| Cash and cash equivalents at the end of year        | 1,365.0                                    | 680.6       | 293.8       |

Our financing strategy is to maintain adequate financial resources and access to additional liquidity. During 2006, we have counted on cash flows from operations as well as additional bank financing to fund our transactions including the acquisition of Maverick. Short-term bank borrowings were used as needed throughout the year.

We believe that funds from operations, availability of liquid financial assets and our access to external borrowing through the financial markets will be sufficient to satisfy our working capital needs and to service our debt in the foreseeable future. We also believe that our liquidity and capital resources give us adequate flexibility to manage our planned capital spending programs, to service our debt and to address short-term changes in business conditions.

We have a conservative approach to the management of our liquidity, which consists of cash and cash equivalents, mainly short-term investments of high liquidity. We used these funds to finance our working capital and capital expenditure requirements, to make acquisitions and

to distribute dividends to our shareholders.



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We hold money market investments and variable-rate or fixed-rate securities from investment grade issuers. We concentrate our cash in major financial centers (mainly New York and London). We hold our cash and cash equivalents primarily in U.S. dollars, and limit our holdings of other currencies to the minimum required to fund our cash operating needs. As of December 31, 2006 U.S. dollar denominated liquid assets represented around 80% of total liquid financial assets. Liquid financial assets as a whole (excluding current investments) were 10.9% of total assets compared to 10.5% at the end of 2005. For further information on our liquidity, please see note 19 to the consolidated financial statements included elsewhere in this annual report.

Cash and cash equivalents increased by \$689.5 million to \$1,365.0 million at December 31, 2006, from \$680.6 million at December 31, 2005. In addition, we had other current investments of \$183.6 million. As of December 31, 2005, other current investments amounted to \$119.9 million.

***Fiscal Year Ended December 31, 2006, Compared to Fiscal Year Ended December 31, 2005***

Net cash provided by operations during 2006 rose to \$1,810.9 million compared to \$1,295.3 million in 2005 primarily reflecting an increase in operating income to \$2,792.5 million in 2006 from \$1,945.9 million in 2005. Working capital increased by \$469.5 million in 2006 compared to a \$433.9 million increase in 2005. The working capital increase was comprised mainly of:

an increase in inventories of \$455.6 million, reflecting primarily an increase in business activity and an increase in the cost of inventories; and

an increase in trade receivables of \$226.7 million, reflecting higher quarterly net sales, partially offset by an increase in trade payables of \$150.6 million.

*Investing activities*

Net cash used in investing activities in 2006 was \$2,822.0 million, compared to \$292.8 million in 2005. The main differences were as follows:

Capital expenditure increased to \$441.5 million in 2006 compared to \$284.5 million in 2005 as we advanced with our investment program to increase our capabilities to produce specialized products by expanding heat treatment capacity and premium threading and other finishing facilities, and we reached the final stage of the construction of a power generation plant in Italy.

We spent \$2,387.2 million in acquisitions in 2006; of which \$2,346.6 million correspond to the acquisition of Maverick (total disbursement including net debt amounted to \$3,160.4). We also acquired in January 2006, certain welded pipe assets and facilities from Acindar, in Argentina, for \$29.3 million. During the year, additional shares of Silcotub and Dalmine were acquired from minority shareholders for approximately \$11.2 million. Total funds spent for acquisitions during 2005 amounted to \$48.3 million.

On December 1, 2006 we sold a 75% participation in DaEn for \$58.9 million.

In addition, on May 7, 2007, we completed the acquisition of Hydril, a North American manufacturer of premium connections and pressure control products, for \$2.0 billion.

*Financing activities*

Net cash provided by financing activities, including dividends paid and proceeds and repayments of borrowings, was \$1,700.7 million in 2006, compared to net cash used in financing activities in 2005 of \$604.1 million. Net proceeds from borrowings (proceeds less repayments) totaled \$1,928.1 million in 2006 compared to net repayments of \$240.4 million in 2005. Dividends paid, including dividends paid to minority interests in subsidiaries, amounted to \$227.4 million in 2006 compared to \$363.8 million in 2005.



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The dividend paid in June 2007, to our shareholders in respect of the 2006 fiscal year amounted to approximately \$354 million, equal to the amount paid in respect of the 2005 fiscal year.

Our total liabilities to total assets ratio increased to 0.55 to 1 as of December 31, 2006, compared to 0.44 to 1 as of December 31, 2005.

### ***Fiscal Year Ended December 31, 2005, Compared to Fiscal Year Ended December 31, 2004***

Cash and cash equivalents increased by \$398.4 million to \$680.6 million at December 31, 2005, from \$293.8 million at December 31, 2004. In addition, we had other current investments of \$119.9 million. As of December 31, 2004, these investments amounted to \$119.7 million.

#### ***Operating activities***

Net cash provided by operations during 2005 amounted to \$1,295.3 million, mainly due to an operating income of \$1,945.9 million partially offset by an increase in working capital of \$433.9 million. In 2004, net cash provided by operations amounted to \$98.3 million, mainly due to an operating income of \$805.7 million partially offset by an increase in working capital of \$621.2 million. The working capital increase during 2005 was comprised mainly of:

an increase in inventories of \$101.1 million, reflecting primarily an increase in business activity and an increase in the cost of goods in process; *and*

a net increase in trade receivables of \$387.2 million, reflecting higher quarterly net sales, partially offset by an increase in trade payables of \$32.6 million.

Additionally, \$66.6 million was received in respect of the Fintecna arbitration award net of the third and final installment paid towards the consortium led by BHP Billiton Petroleum Ltd. in respect of the litigation settlement, compared to a payment of \$113.8 million in 2004.

#### ***Investing activities***

Net cash used in investing activities in 2005 was \$292.8 million, compared to \$213.4 million in 2004. The main differences were as follows:

Capital expenditure increased to \$284.5 million in 2005 compared to \$183.3 million in 2004 due primarily to investment in the construction of a power generation plant in Italy and the start towards the end of the year of an investment program to increase capacity to produce high-end products.

We spent \$48.3 million in acquisitions in 2005, including the acquisition of a controlling interest in S.C. Donasid S.A., a Romanian steel producer for \$47.9 million, compared to \$97.6 million in 2004.

We received distributions of \$59.1 million on our indirect investments in Sidor in 2005, out of which proceeds we extended convertible loans to Ternium which amounted to \$40.4 million including accrued interest at December 31, 2005, compared to \$48.6 million in 2004. On February 6, 2006, pursuant to Ternium's IPO these convertible loans were converted into a 20,252,338 shares of Ternium.

#### ***Financing activities***

Net cash used in financing activities, including dividends paid and proceeds and repayments of borrowings, was \$604.1 million in 2005, compared to net cash provided by financing activities in 2004 of \$170.6 million. We decreased borrowings by \$240.4 million in 2005 compared to an increase of \$305.6 million in 2004 and we increased dividends paid, including dividends paid to minority interests in subsidiaries, to \$363.8 million in 2005 from \$135.1 million in 2004. Dividends paid in 2005 included \$149.9 million distributed as an interim dividend with respect to the annual dividend which was approved by the shareholders' meeting in respect of the 2005 fiscal year.



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Our total liabilities to total assets ratio decreased to 0.44 to 1 as of December 31, 2005, compared to 0.53 to 1 as of December 31, 2004.

**Principal Sources of Funding***Financial liabilities*

Total financial debt increased by \$2,641.0 million to \$3,651.2 million at December 31, 2006 from \$1,010.3 million at December 31, 2005.

Our financial liabilities consist mainly of bank loans. As of December 31, 2006 U.S. dollar-denominated financial liabilities and Euro-denominated financial liabilities represented 95.3% and 3.3%, respectively, of total financial liabilities. For further information about our financial liabilities, please see note 20 to our consolidated financial statements.

The following table shows the composition of our financial liabilities at December 31, 2006 and 2005:

| <i>Thousands of U.S. dollars</i> | <b>2006</b>      | <b>2005</b>      |
|----------------------------------|------------------|------------------|
| Bank borrowings                  | 3,503,573        | 872,790          |
| Bank overdrafts                  | 7,300            | 24,717           |
| Other loans                      | 134,421          | 105,858          |
| Finance lease liabilities        | 5,949            | 6,927            |
| <b>Total borrowings</b>          | <b>3,651,243</b> | <b>1,010,292</b> |

The nominal average interest rates shown below were calculated using rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments:

|                           | <b>2006</b> | <b>2005</b> |
|---------------------------|-------------|-------------|
| Bank borrowings           | 6.12%       | 5.14%       |
| Other loans               | 5.50%       | 4.51%       |
| Finance lease liabilities | 3.71%       | 3.14%       |

The maturity of our financial liabilities is as follows:

| <i>Thousands of U.S. dollars</i> | <b>1 year</b>  | <b>1 - 2</b>   | <b>2 - 3</b>   | <b>3 - 4</b>   | <b>4 - 5</b>   | <b>Over 5</b> |                  |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|------------------|
| <b>At December 31, 2006</b>      | <b>or less</b> | <b>years</b>   | <b>years</b>   | <b>years</b>   | <b>years</b>   | <b>Years</b>  | <b>Total</b>     |
| Financial lease                  | 1,384          | 1,116          | 822            | 758            | 663            | 1,206         | 5,949            |
| Other borrowings                 | 792,813        | 803,381        | 924,647        | 568,965        | 507,030        | 48,458        | 3,645,294        |
| <b>Total borrowings</b>          | <b>794,197</b> | <b>804,497</b> | <b>925,469</b> | <b>569,723</b> | <b>507,693</b> | <b>49,664</b> | <b>3,651,243</b> |

Our current debt to total debt ratio decreased from 0.33 as of December 31, 2005 to 0.22 as of December 31 2006 due to the impact of the new long term syndicated loans granted in October 2006.

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For information on our derivative financial instruments, please see Item 11 Quantitative and Qualitative Disclosure about Market Risk and note 25 to our consolidated financial statements.

*Principal Borrowings*

Most of our principal borrowings as of December 31, 2006, were assumed in relation to the acquisition of Maverick in October 2006.

*Millions of U.S. dollars*

| <b>Date</b>  | <b>Borrower</b> | <b>Type</b>     | <b>Original Principal amount</b> | <b>Outstanding principal amount</b> | <b>Maturity</b> |
|--------------|-----------------|-----------------|----------------------------------|-------------------------------------|-----------------|
| March 2005   | Tamsa           | Syndicated loan | 300.0                            | 300.0                               | March 2010      |
| April 2005   | Siderca         | Syndicated loan | 125.0                            | 93.8                                | April 2008      |
| October 2006 | Company         | Syndicated loan | 500.0                            | 500.0                               | October 2011    |
| October 2006 | Tamsa           | Syndicated loan | 700.0                            | 700.0                               | October 2011    |
| October 2006 | Siderca         | Syndicated loan | 480.5                            | 480.5                               | October 2009    |
| October 2006 | Dalmine         | Syndicated loan | 150.0                            | 150.0                               | October 2011    |
| October 2006 | Algoma Tubes    | Syndicated loan | 100.0                            | 100.0                               | October 2011    |
| October 2006 | Maverick        | Syndicated loan | 750.0                            | 750.0                               | October 2011    |

The main covenants in these loan agreements are limitations on liens and encumbrances, restrictions on investments and capital expenditures, limitations on the sale of certain assets and compliance with financial ratios (e.g, leverage ratio and interest coverage ratio calculated on each subsidiary's financial statements and leverage ratio and debt service coverage ratio calculated on the Company's financial statements). In addition, as of December 31, 2006, the Company's loan agreement was secured with a pledge of a percentage of Maverick's shares, as explained in note 28 to our consolidated financial statements included in this annual report. The Company's syndicated loan facility credit in an aggregate principal amount of \$500 million, which had been incurred in connection with the Maverick acquisition, was prepaid in its entirety in May 2007, and upon such prepayment the previous pledge on Maverick's shares was released.

Additionally, our total borrowings include \$153 million secured by certain properties of Dalmine and Confab.

As of December 31, 2006, we were in compliance with all of our financial covenants. We believe that current debt covenants allow us a high degree of operational and financial flexibility and do not impair our ability to obtain additional financing at competitive costs.

For further information on our borrowings, please see note 20 to our consolidated financial statements. Subsequent to December 31, 2006, to finance Hydril's acquisition and the payment of related obligations, and to refinance the Company's \$500 million syndicated loan, we entered into syndicated term loan facilities in an aggregate principal amount of \$2.0 billion:

*Millions of U.S. dollars*

| <b>Date</b> | <b>Borrower</b> | <b>Type</b>     | <b>Original Principal amount</b> | <b>Outstanding principal amount</b> | <b>Maturity</b> |
|-------------|-----------------|-----------------|----------------------------------|-------------------------------------|-----------------|
| May 2007    | Company         | Syndicated loan | 1,700.0                          | 1,700.0                             | May 2012        |
| May 2007    | Hydril          | Syndicated loan | 300.0                            | 300.0                               | May 2012        |

The main covenants on these loan agreements are limitations on liens and encumbrances, restrictions on investments and capital expenditures, limitations on the sale of certain assets and compliance with financial ratios (e.g, leverage ratio and interest coverage ratio in Hydril's syndicated loan agreement, and leverage ratio and debt service coverage ratio in the Company's syndicated loan agreement). In addition, the Company's syndicated loan agreement is secured with a pledge of 100% of Hydril's shares; immediately upon each payment or prepayment under this agreement, the

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number of shares subject to the pledge shall be reduced proportionally, and the pledge will be completely released immediately after the aggregate outstanding principal amount of the loan is less than or equal to \$600 million. The Company is allowed to make payments such as dividends, repurchase or redemption of shares up to the greater of \$475 million or 25% of the consolidated operating profit for the previous fiscal year; once the outstanding amount of this facility is less than \$1,000 million, no such restrictions will apply.

**C. Research and Development, Patents and Licenses, Etc.**

See Item 4. Information on the Company Research and Development .

**D. Trend Information*****Principal Factors Affecting Oil and Gas Prices and Demand for Steel Pipes from the Global Oil and Gas Industry***

Sales to the oil and gas industry worldwide represent a high percentage of our total sales and demand for steel pipes from the global oil and gas industry is a significant factor affecting the general level of volumes and prices for our products. Downward pressures on oil and gas prices usually result in lower oil and gas drilling activity and investment throughout the oil and gas industry with consequently lower demand for our steel pipe products and, in some circumstances, upward pressures can result in higher demand from our oil and gas customers.

Drilling activity in the U.S. and Canada is particularly sensitive to the level of regional gas prices as a substantial proportion (more than 75%) of wells drilled are gas wells. In the rest of the world, however, a majority of wells drilled are oil wells, though the development of gas reserves for regional consumption and export in the form of LNG, or liquefied natural gas, has been increasing. Whereas oil prices are similar in most parts of the world because oil is a fully tradable commodity, gas prices are influenced by regional factors. In North America, where gas production is extensively developed and there is an extensive regional pipeline system, these factors include available gas storage capacity and seasonal weather patterns, particularly winter temperatures in the U.S. LNG prices are usually established in relation to international oil prices.

International oil prices depend on diverse factors. On the supply side, major oil- and gas-producing nations and companies frequently collaborate to control the supply (and thus the price) of oil in the international markets. A major vehicle for this collaboration is OPEC. Many of our customers are state-owned companies in member countries of OPEC, or otherwise cooperate with OPEC in controlling the supply and price of oil. Another factor that has affected the international price level of oil has to do with the political and socioeconomic conditions of oil-producing countries, such as Nigeria, Venezuela and the persistence of armed conflicts affecting the Middle East region which is home to a substantial proportion of the world's known oil reserves. On the demand side, economic conditions and the level of oil inventories in the leading industrial nations of the world, and more recently China, which constitute the largest oil consuming nations, also play a significant role in oil prices.

In the past three years, international oil prices rose strongly until the middle of 2006 since when they have fluctuated, declining to \$56 per barrel in November before recovering to their current levels in excess of \$60 per barrel (according to data available on Bloomberg LP, the WTI Midland Crude Oil spot price averaged \$66 per barrel in 2006, \$57 per barrel in 2005 and \$41 per barrel in 2004). North American natural gas prices also rose strongly in 2004 and 2005 with the Henry Hub spot price peaking at \$15.4 per million BTU (British Thermal Unit) in December 2005. In 2006, North American natural gas prices declined following a lower than usual gas storage winter drawdown due to mild winter conditions in the north-eastern states of the U.S., with the Henry Hub spot price reaching a low of \$3.7 per million BTU in September before recovering to a current level in excess of \$6 per million BTU.

Demand for oil and gas in the past three years has also increased led by the continuing growth of the Chinese and Asian economies and a recovery of growth in North America. At the same time, the rate of production decline from established reserves has been accelerating and estimates of excess oil production capacity have fallen to levels not seen since the 1970s. These factors have led to a significant increase in drilling activity in the past three years and

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higher demand for steel pipes from the global oil and gas industry. Moreover, new drilling activity is increasingly taking place at greater depths and in more corrosive environments leading to an increase in demand for high value steel pipe products.

The tables below show the average number of active oil and gas drilling rigs, or rig count, in the United States, Canada, International (worldwide excluding the United States and Canada and excluding Iran and Sudan as well as onshore China and Russia) and worldwide, as published by Baker Hughes Inc., for the years indicated and the percentage increase or decrease over the previous year. Baker Hughes, a leading oil service company, has published its rig counts on a monthly basis since 1975 as a general indicator of activity in the oil and gas sector.

**Rig count**

|               | 2006  | 2005  | 2004  | 2003  | 2002  |
|---------------|-------|-------|-------|-------|-------|
| International | 925   | 850   | 781   | 729   | 694   |
| Canada        | 470   | 458   | 369   | 372   | 266   |
| United States | 1,648 | 1,380 | 1,190 | 1,032 | 831   |
| Worldwide     | 3,043 | 2,688 | 2,340 | 2,133 | 1,791 |

**Percentage increase (decrease) over the previous year**

|               | 2006  | 2005  | 2004   | 2003  |
|---------------|-------|-------|--------|-------|
| International | 8.8%  | 8.8%  | 7.1%   | 5.0%  |
| Canada        | 2.6%  | 24.1% | (0.8%) | 39.8% |
| United States | 19.4% | 16.0% | 15.3%  | 24.2% |
| Worldwide     | 13.2% | 14.9% | 9.7%   | 19.1% |

We believe that, if global demand for oil and gas continues to increase at current rates, the factors which have resulted in the current level of oil prices and the increased drilling activity and demand for steel pipes from the oil and gas industry shown in the past two years will persist in the near term due to the lead times and capital required for the development of major new oil and gas reserves.

**E. Off-Balance Sheet Arrangements**

We do not use off-balance sheet arrangements as such term is defined by applicable SEC rules. However, we do have various off-balance sheet commitments, as described in note 26 to our consolidated financial statements included in this annual report.

**F. Contractual Obligations**

The following table summarizes our contractual obligations at December 31, 2006, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

*Millions of U.S. dollars*

| Contractual Obligations and Commitments | Total   | Payments Due by Period<br>as of December 31, 2006 |              |              |                  |
|---|---------|---|--------------|--------------|------------------|
|   |         | Less than 1<br>year                               | 1-3<br>years | 3-5<br>years | After 5<br>years |
| Borrowings                              | 3,645.3 | 792.8   | 1,728.0      | 1,076.0      | 48.5             |
| Finance Lease Obligations               | 5.9     | 1.4   | 1.9          | 1.4          | 1.2              |



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|   |         |         |         |         |       |
|---|---------|---------|---------|---------|-------|
| Total Borrowings                              | 3,651.2 | 794.2   | 1,730.0 | 1,077.4 | 49.7  |
| Estimated Interest Payments <sup>(1)</sup>    | 527.2   | 198.8   | 251.8   | 69.7    | 6.9   |
| Purchase Commitments                          | 382.6   | 83.9    | 135.8   | 85.5    | 77.4  |
| Total Contractual Obligations and Commitments | 4,561.0 | 1,076.9 | 2,117.6 | 1,232.6 | 134.0 |

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Millions of U.S. dollars

|                                 | Total<br>Amounts<br>Guaranteed | Amount of Guarantee<br>Expiration Per Period<br>as of December 31, 2006 |              |              |                  |
|---------------------------------|--------------------------------|---|--------------|--------------|------------------|
|                                 |                                | Less than 1<br>year   | 1-3<br>years | 4-5<br>years | After 5<br>years |
| <b>Guarantees</b>               |                                |   |              |              |                  |
| Total Guarantees <sup>(2)</sup> |                                |   |              |              |                  |

- (1) Variable rates used in the projection are the ones settled in the current interest period and are considered to be fixed over the years.
- (2) In accordance with applicable accounting standards, only guarantees issued in relation to unaffiliated third parties' obligations are included. Additionally, in the ordinary course of business some of our subsidiaries issue guarantees in relation to payment and/or performance commitments entered into by other of our subsidiaries; these have been excluded from this tabulation to avoid duplication of liabilities, where applicable.

The majority of our purchase commitment as of December 31, 2006, consist of obligations to purchase steel for the production of welded pipes in North America. In addition, we entered into a five year contract with Nucor, under which we have committed to purchase around 435,000 tons of steel coils per year, with deliveries starting in January 2007. Prices are adjusted quarterly in accordance with market conditions and the estimated aggregate amount of the contract is approximately \$1,432 million.

**G. Recent Developments***a) Acquisition of Hydril Company*

On May 7, 2007, we paid \$2.0 billion to acquire Hydril, a leading North American manufacturer of premium connections and pressure control products for the oil and gas industry. To finance the acquisition, we entered into syndicated loans in the amount of \$2.0 billion, of which \$0.5 billion were used to refinance the existing loan in the Company. The balance of the acquisition cost was paid out of cash on hand. Of the loan amount, \$1.7 billion was allocated to the Company and the balance to Hydril. The shares of Hydril were pledged as collateral for the new loan to the Company and the previous pledge on Maverick's shares was released.

For 2006, Hydril reported revenues of \$503 million, operating income of \$132.2 million and net income of \$91.3 million under U.S. GAAP.

*b) Dividend payment*

On June 6, 2007, our shareholders approved the payment of a dividend in the amount of \$0.30 per share (\$0.60 per ADS), or approximately \$354 million, which was paid on June 21, 2007.

**Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management  
Board of Directors**

Management of the Company is vested in a board of directors. The Company's articles of association provide for a board of directors consisting of at least three and at most fifteen directors; however if the Company's shares are listed on a stock exchange, the minimum number of directors must be five. The board of directors meets at least four times per year, or as often as required by the interests of the Company. A majority of the members of the board constitutes a quorum, and resolutions may be adopted by the vote of a majority of the directors present. In the case of a tie, the chairman is entitled to cast the deciding vote.

Directors are elected at the annual ordinary shareholders' meeting to serve one-year renewable terms, as decided by the shareholders. The Company's articles of association provide that if its shares are listed on at least one stock exchange, it must have an audit committee composed of

three members, two of whom, at least, must qualify as independent directors.

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Under the Company's articles of association, an independent director is a director who:

is not and has not been employed by us or our subsidiaries in an executive capacity for the preceding five years;

is not a person that controls us, directly or indirectly, and is not a member of the board of directors of a company controlling us, directly or indirectly;

does not have (and is not affiliated with a company or a firm that has) a significant business relationship with us, our subsidiaries or our controlling shareholder;

is not and has not been affiliated with or employed by a present or former auditor of us, our subsidiaries or our controlling shareholder for the preceding five years; *and*

is not a spouse, parent, sibling or relative up to the third degree of any of the above persons.

On June 6, 2007, our shareholders' meeting increased the size of the Company's board of directors and elected Mr. Carlos Condorelli (our chief financial officer) to fill in the new board position. The following table sets forth the Company's current directors, their respective positions on the board, their principal occupation, their years of service as board members and their age.

| <b>Name</b>                             | <b>Position</b> | <b>Principal Occupation</b>  | <b>Years as Director</b> | <b>Age at December 31, 2006</b> |
|---|-----------------|--|--------------------------|---------------------------------|
| Roberto Bonatti <sup>(1)</sup>          | Director        | President of San Faustín   | 4                        | 57                              |
| Carlos Condorelli                       | Director        | Chief financial officer of Tenaris   |                          | 55                              |
| Carlos Franck                           | Director        | President of Santa María   | 4                        | 56                              |
| Bruno Marchettini                       | Director        | Board member of San Faustín, Ternium and Siderar   | 4                        | 65                              |
| Roberto Monti                           | Director        | Non-executive chairman of Trefoil Limited and member of the board of directors of Petrobras Energia, Transocean Offshore Drilling and of John Wood Group PLC | 2                        | 67                              |
| Gianfelice Mario Rocca <sup>(1)</sup>   | Director        | Chairman of the board of directors of San Faustín  | 4                        | 58                              |
| Paolo Rocca <sup>(1)</sup>              | Director        | Chairman and chief executive officer of Tenaris  | 5                        | 54                              |
| Jaime Serra Puche                       | Director        | Chairman of SAI Consultores  | 4                        | 55                              |
| Amadeo Vázquez y Vázquez <sup>(2)</sup> | Director        | Chairman of the board of directors of Telecom Argentina S.A.   | 4                        | 64                              |
| Guillermo Vogel                         | Director        | Vice chairman of Tamsa   | 4                        | 56                              |

(1) Paolo Rocca and Gianfelice Rocca are brothers, and Roberto Bonatti is Paolo and Gianfelice Rocca's first cousin.

(2) Amadeo Vázquez y Vázquez retired from his position as Chairman of the board of directors of Telecom Argentina S.A. in April 2007.

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**Roberto Bonatti.** Mr. Bonatti is a member of our board of directors. He is a grandson of Agustín Rocca, founder of the Techint group, a group of companies controlled by San Faustín. Throughout his career in the Techint group he has been involved specifically in the engineering and construction and corporate sectors. He was first employed by the Techint group in 1976, as deputy resident engineer in Venezuela. In 1984, he became a director of San Faustín, and since 2001 he has served as its president. In addition, Mr. Bonatti currently serves as president of Tecpetrol and Techint Compañía Técnica Internacional S.A.C.I. of Argentina. He is also a member of the board of directors of Ternium and Siderar. Mr. Bonatti is an Italian citizen.

**Carlos Condorelli.** Mr. Condorelli is a member of our board of directors and our chief financial officer, a position that he assumed in October 2002. He is also a board member of Ternium. He began his career within the Techint group in 1975 as an analyst in the accounting and administration department of Siderar. He has held several positions within Tenaris and other Techint group companies, including finance and administration director of Tamsa and president of the board of directors of Empresa Distribuidora La Plata S.A., or Edelap, an Argentine utilities company. Mr. Condorelli is an Argentine citizen.

**Carlos Franck.** Mr. Franck is a member of our board of directors. He is president of Santa María S.A.I.F., vice president of Siderca and a member of the board of directors of Techint Financial Corporation N.V., Industrial Investments CI, Siderar, Tecpetrol and Tecgas N.V. He has financial, planning and control responsibilities in subsidiaries of San Faustín. Mr. Franck is an Argentine citizen.

**Bruno Marchettini.** Mr. Marchettini is a member of our board of directors. He has retired from executive positions, but continues to be the referent advisor to the Techint group in steel technology matters. He is a member of the board of directors of San Faustín, Ternium and Siderar. Mr. Marchettini is an Italian citizen.

**Roberto Monti.** Mr. Monti is a member of our board of directors. He is a non-executive chairman of Trefoil Limited, member of the board of directors of Petrobras Energia, Transocean Offshore Drilling and of John Wood Group PLC. He has served as vice president of Exploration and Production of Repsol YPF and chairman and CEO of YPF. He was also president of Dowell, a subsidiary of Schlumberger and president of Schlumberger Wire & Testing division for East Hemisphere Latin America. Mr. Monti is an Argentine citizen.

**Gianfelice Mario Rocca.** Mr. Rocca is a member of our board of directors. He is a grandson of Agustín Rocca. He is chairman of the board of directors of San Faustín, a member of the board of directors of Industrial Investments CI, Dalmine, Tamsa and Ternium, president of the Humanitas Group and president of the board of directors of Techint Compagnia Tecnica Internazionale S.p.A. and Techint S.A. de C.V. In addition, he sits on the board of directors or executive committees of several companies, including Sirti S.p.A., Riunione Adriatica di Sicurtà, RCS Quotidiani, Fastweb and Buzzi Unicem. He is vice president of Confindustria, the leading association of Italian industrialists. He is a member of the European Advisory Board of the Harvard Business School, the Trilateral Commission. Mr. Rocca is an Italian citizen.

**Paolo Rocca.** Mr. Rocca is chairman of our board of directors and our chief executive officer. He is a grandson of Agustín Rocca. He is also chairman of the board of directors of Tamsa and of Dalmine, and vice president of Confab. He is also chairman of the board of directors of Ternium and director and vice president of San Faustín and director of Techint Financial Corporation N.V. Mr. Rocca is member of the Executive Committee of the IISI (International Iron and Steel Institute) and member of the International Advisory Committee of the NYSE (New York Stock Exchange). Mr. Rocca is an Italian citizen.

**Jaime Serra Puche.** Mr. Serra Puche is a member of our board of directors. He is chairman of SAI Consultores, and a member of the board of directors of Chiquita Brands International, the Mexico Fund, Grupo Vitro and Grupo Modelo. Mr. Serra Puche served as Mexico's Undersecretary of Revenue, Secretary of Trade and Industry, and Secretary of Finance. He led the negotiation and implementation of NAFTA. Mr. Serra Puche is a Mexican citizen.

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**Amadeo Vázquez y Vázquez.** Mr. Vázquez y Vázquez is a member of our board of directors. He is a director of Gas Natural Ban S.A., third vice president of Cámara Argentina de Comercio, communications advisor of Departamento de Infraestructura de la Unión Industrial Argentina, and vocal of the Executive Committee of Asociación Empresaria Argentina. He was also chairman of the board of directors of Telecom Argentina S.A. until April 2007. Mr. Vázquez y Vázquez is an Argentine citizen.

**Guillermo Vogel.** Mr. Vogel is a member of our board of directors. He is vice chairman of Tamsa, vice chairman of the American Iron & Steel Institute, chairman of the North American Steel Council, chairman of Grupo Collado S.A. de C.V., vice chairman of Estilo y Vanidad S.A. de C.V. and a director of the North American Competitiveness Council, the International Iron and Steel Institute and HSBC (Mexico), being also a member of its audit committee. Mr. Vogel is a Mexican citizen.

### ***Director Liability***

Under Luxembourg law, a director may be liable to us for any damage caused by management errors, such as wrongful acts committed during the execution of his or her mandate, and to the Company, its shareholders and third parties in the event that the Company, its shareholders or third parties suffer a loss due to an infringement of either the Luxembourg Company Law or the Company's articles of association. Under Luxembourg law, related-party transactions involving directors may be subject to approval procedures established by Luxembourg law and are to be reported at the next following shareholders' meeting. Any director may be removed from or reappointed to office at any time by a shareholders' resolution passed by majority vote, irrespective of the number of shares present or represented at the meeting.

A director will not be liable if, notwithstanding his presence at the meeting at which a resolution was adopted or notwithstanding his opposition to that resolution, he advised the board of directors of his knowledge thereto and caused a record of his statement to be included in the minutes of the meeting. The director must report his opposition at the next shareholders' meeting before any other resolution is voted on.

The Company may initiate actions against directors for damages with the approval of shareholders by a vote of more than 50% of votes cast and without the presence of a quorum. Actions against directors who misappropriate corporate assets or commit a breach of trust may be brought by any shareholder.

### **Auditors**

The Company's articles of association require the appointment of at least one independent auditor chosen from among the members of the Luxembourg Institute of Independent Auditors. The primary responsibility of the independent auditor is to audit the Company's annual accounts and to submit a report on the accounts to shareholders at the annual shareholders' meeting. Following a recommendation from our Audit Committee, auditors are appointed by the shareholders through a resolution passed by a majority vote, irrespective of the number of shares present or represented. Shareholders can determine the number and the term of office of the auditors at the general meeting. Luxembourg law does not allow directors to serve concurrently as independent auditors. An auditor's term shall not exceed one year, and they may be reappointed and dismissed at any time.

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PricewaterhouseCoopers (acting, in connection with the Company's annual accounts required under Luxembourg law, through PricewaterhouseCoopers S.á.r.l., and, in connection with the Company's annual and interim financial statements required under the laws of other relevant jurisdictions, through Price Waterhouse & Co. S.R.L.) are the Company's independent auditors for the year ending December 31, 2006.

**Senior Management**

Our current senior management consists of:

| <b>Name</b>         | <b>Position</b>                        | <b>Age at<br/>December 31, 2006</b> |
|---------------------|--|-------------------------------------|
| Paolo Rocca         | Chairman and Chief Executive Officer   | 54                                  |
| Alberto Valsecchi   | Chief Operating Officer                | 62                                  |
| Carlos Condorelli   | Chief Financial Officer                | 55                                  |
| Carlos San Martín   | Technology Director                    | 63                                  |
| Alejandro Lammertyn | Supply Chain Director                  | 41                                  |
| Marco Radnic        | Human Resources Director               | 57                                  |
| Marcelo Ramos       | Quality Director                       | 43                                  |
| Giancarlo Miglio    | Information Technology Director        | 49                                  |
| Sergio Tosato       | Industrial Coordination Director       | 57                                  |
| Germán Curá         | North American Area Manager            | 44                                  |
| Sergio de la Maza   | Central American Area Manager          | 50                                  |
| Guillermo Noriega   | South American Area Manager            | 56                                  |
| Vincenzo Crapanzano | European Area Manager                  | 54                                  |
| Carlos Pappier      | Planning Director                      | 45                                  |
| Claudio Leali       | Managing Director, Japanese Operations | 56                                  |
| Túlio Chipoletti    | Area Manager, Brazil                   | 49                                  |
| Emyr Barbare        | Director, Confab Equipamentos          | 50                                  |

**Paolo Rocca.** Mr. Rocca is chairman of our board of directors and our chief executive officer. He is a grandson of Agustín Rocca. He is also chairman of the board of directors of Tamsa and of Dalmine, and vice president of Confab. He is also chairman of the board of directors of Ternium and director and vice president of San Faustín and director of Techint Financial Corporation N.V. Mr. Rocca is member of the Executive Committee of the IISI (International Iron and Steel Institute) and member of the International Advisory Committee of the NYSE (New York Stock Exchange). Mr. Rocca is an Italian citizen.

**Alberto Valsecchi.** Mr. Valsecchi currently serves as our chief operating officer. He joined the Techint group in 1968 and has held various positions within Tenaris and the Techint group, including managing director of Siderca, managing director of Dalmine and European area manager. He assumed his current position in February 2004. Mr. Valsecchi is an Italian citizen. Mr. Valsecchi will retire from his executive functions as our chief operating officer on July 31, 2007.

**Carlos Condorelli.** Mr. Condorelli is a member of our board of directors and our chief financial officer, a position that he assumed in October 2002. He is also a board member of Ternium. He began his career within the Techint group in 1975 as an analyst in the accounting and administration department of Siderar. He has held several positions within Tenaris and other Techint group companies, including finance and administration director of Tamsa and president of the board of directors of Empresa Distribuidora La Plata S.A., or Edelap, an Argentine utilities company. Mr. Condorelli is an Argentine citizen.

**Carlos San Martín.** Mr. San Martín currently serves as our technology director with responsibility for R&D activities, as well as acting as honorary chairman of NKKTubes. He joined the Techint group in 1968 and has held various positions within the Techint group and Tenaris, including marketing director of Siderca and managing director of NKKTubes. From August 2000 to August 2002, Mr. San Martín was Chairman of NKKTubes. He assumed his current position in October 2002. Mr. San Martín is an Argentine citizen.

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**Alejandro Lammertyn.** Mr. Lammertyn currently serves as our supply chain director with responsibility for the execution of all contractual deliveries to customers. He began his career with Tenaris in 1990 as special projects analyst in Siderca. In 2000, he was assistant to the CEO for marketing, organizational model and mill allocation matters. He assumed his current position in October 2002. Mr. Lammertyn is an Argentine citizen.

**Marco Radnic.** Mr. Radnic currently serves as our human resources director. He began his career in the Industrial Engineering Department of Siderar in 1975. Later he held several positions in the technical departments of Siderca and Techint. After holding several positions in the marketing and procurement areas in Europe, in 1996 he became commercial director of Dalmine. In 1998, he became the director of our Process and Power Services business unit. In 2001, he was appointed chief of staff for Paolo Rocca in Buenos Aires. He assumed his current position in December 2002. Mr. Radnic is an Argentine citizen.

**Marcelo Ramos.** Mr. Ramos currently serves as our quality director. Previously he served as managing director of NKK Tubes and our Japanese operations. He joined the Techint group in 1987 and has held various positions within Tenaris including quality control director at Siderca. He assumed his current position in 2006. Mr. Ramos is an Argentine citizen.

**Giancarlo Miglio.** Mr. Miglio currently serves as our information technology director. He began his career with Tenaris in 2000 in the information technology department. Before joining Tenaris he worked for Pharmacia as IT director and for IBM Italia as project leader. He assumed his current position in July 2002. Mr. Miglio is an Italian citizen.

**Sergio Tosato.** Mr. Tosato currently serves as our industrial coordination director. He first joined Dalmine in 1974 in the personnel organization area, and has held many positions within Tenaris, including director of operations in Siderca and manufacturing director in Dalmine, before assuming his current position in 2003. Mr. Tosato is an Italian citizen.

**Germán Curá.** Mr. Curá currently serves as our North American area manager. He is a naval engineer and was first employed with Siderca in 1988. Previously, he served as Siderca's exports director, Tamsa's exports director and commercial director, sales & marketing manager of the Middle East office, president of Algoma Tubes, director of our Oilfield Services business unit and commercial director. He assumed his current position in October 2006. Mr. Curá is an Argentine citizen.

**Sergio de la Maza.** Mr. de la Maza currently serves as our Central American area manager and also serves as a director and executive vice-president of Tamsa. Previously he served as our Mexican area manager. He first joined Tamsa in 1980. From 1983 to 1988, Mr. de la Maza worked for Dalmine. He then became manager of Tamsa's new pipe factory and later served as manufacturing manager and quality director of Tamsa. Subsequently, he was named manufacturing director of Siderca. He assumed his current position in 2006. Mr. de la Maza is a Mexican citizen.

**Guillermo Noriega.** Mr. Noriega currently serves as our South American area manager and also serves as managing director of Siderca. He began his career at Siderca as an industrial engineer in 1981. Previously, he served as Siderca's commercial director for the Argentine market. He assumed his current position with Siderca in 2000. Mr. Noriega is an Argentine citizen.

**Vincenzo Crapanzano.** Mr. Crapanzano currently serves as our European area manager and also serves as managing director of Dalmine. Previously he served as our Mexican area manager and executive vice president of Tamsa. Prior to joining Tenaris, he held various positions at Grupo Falck from 1979 to 1989. When Dalmine acquired the tubular assets of Grupo Falck in 1990, he was appointed managing director of the cold drawn tubes division. He assumed his current position in January 2004. Mr. Crapanzano is an Italian citizen.

**Carlos Pappier.** Mr. Pappier currently serves as our planning director, a position that he assumed in October 2006. He began his career within the Techint group in 1984 as a cost analyst in Siderar. After holding several positions within Tenaris and other Techint group companies in 2002 he became chief of staff of Tenaris. Mr. Pappier is an Argentine citizen.



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**Claudio Leali.** Mr. Leali currently serves as managing director of our Japanese operations, a position that he assumed in November 2006. He began his career at Dalmine as a development product technician in 1976. From March 1994 to October 1995 he served as technical managing director of DMV, a joint venture between Dalmine, Vallourec and Mannesmann. Before assuming his current position he also served as quality director and as executive assistant of the technology department. Mr. Leali is an Italian citizen.

**Túlio Chipoletti.** Mr. Chipoletti currently serves as our Brazil area manager, a position that he assumed in November 2006. He began his career at Confab as an intern in engineering in 1978 and has held various positions before assuming his current position including industrial manager of Confab. Mr. Chipoletti is a Brazilian citizen.

**Emyr Barbare.** Mr. Barbare currently serves as the director of Confab Equipamentos, our Brazilian industrial equipment business, a position that he assumed in October 1998. He began his career at Confab as an intern in Engineering in 1977 and has held various positions before assuming his current position including industrial manager. Mr. Barbare is a Brazilian citizen.

Upon the retirement of Mr. Valsecchi from his executive functions as our chief operating officer, effective July 31, 2007, the position of our chief operating officer will be dissolved and the present organization re-structured. Consequently, some of the positions described above will be subject to changes.

### **B. Compensation**

The compensation of the members of the Company's board of directors is determined at the annual ordinary shareholders' meeting. The aggregate compensation earned by directors and executive officers during 2006 amounted to \$16.8 million.

#### *Employee retention and incentive program*

On January 1, 2007, we adopted an employee retention and long term incentive program. Pursuant to this program, certain senior executives will be granted a number of units equivalent in value to the equity book value per share (excluding minority interest). The units will be vested over a period of four years and the Company will redeem vested units following a period of ten years from the grant date, or when the employee ceases employment, at the equity book value per share at the time of the payment. Beneficiaries will also receive a cash amount per unit equivalent to the dividend paid per share whenever the Company pays a dividend to its shareholders. Compensation under this program is not expected to exceed 35% of the total annual compensation of the beneficiaries.

### **C. Board Practices**

See Directors, Senior Management and Employees Directors and Senior Management .

There are no service contracts between any director and Tenaris that provide for benefits upon termination of employment.

#### *Audit Committee*

On June 6, 2007, the Company's board of directors reappointed Jaime Serra Puche, Amadeo Vázquez y Vázquez and Roberto Monti as members of our audit committee. All three members of the audit committee qualify as independent directors under the Company's articles of association and the Exchange Act.

Under the Company's articles of association, the audit committee is required to report to the board of directors on its activities from time to time, and on the adequacy of the systems of internal control over financial reporting once a year at the time the annual accounts are approved. In addition, the charter of the audit committee sets forth, among

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other things, the audit committee's purpose and responsibilities. The audit committee assists the board of directors in its oversight responsibilities with respect to our financial statements, and the independence, performance and fees of our independent auditors (see Item 16.C for additional information about the audit committee's procedures with respect to our independent auditors). The audit committee also performs other duties entrusted to it by the Company's board of directors.

In addition, the audit committee is required by the Company's articles of association to review Material Transactions, as such term is defined by the Company's articles of association, to be entered into by the Company or its subsidiaries with related parties, as such term is defined by the Company's articles of association in order to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and/or its subsidiaries. In the case of Material Transactions entered into by the Company's subsidiaries with related parties, the Company's audit committee will review those transactions entered into by those subsidiaries whose boards of directors do not have independent members, Confab is currently our only subsidiary with independent board members.

Under the Company's articles of association, as supplemented by the audit committee's charter, a Material Transaction is:

any transaction with or involving a related party (x) with an individual value equal to or greater than \$10 million or (y) with an individual value lower than \$10 million, when the aggregate sum of any series of transactions reflected in the financial statements of the four fiscal quarters of the Company preceding the date of determination (excluding any transactions that were reviewed and approved by Company's audit committee or board of directors, as applicable, or the independent members of the board of directors of any of its subsidiaries) exceeds 1.5% of the Company's consolidated net sales made in the fiscal year preceding the year on which the determination is made; or

any corporate reorganization transaction (including a merger, spin-off or bulk transfer of a business) involving the Company or any of its direct or indirect subsidiaries for the benefit of or involving a related party; and

The audit committee has the power (to the maximum extent permitted by applicable laws) to request that the Company or relevant subsidiary provide any information necessary for it to review any Material Transaction. A Related Party transaction shall not be entered into unless (i) the circumstances underlying the proposed transaction justify that it be entered into before it can be reviewed by the Company's audit committee or approved by the board of directors and (ii) the Related Party agrees to unwind the transaction if the Company's audit committee or board of directors does not approve it.

In addition, the audit committee has the authority to conduct any investigation appropriate to fulfill its responsibilities, and has direct access to the Company's internal and external auditors as well as Tenaris's management and employees and, subject to applicable laws, its subsidiaries.

**D. Employees**

The following table shows the number of persons employed by Tenaris:

|                 | <b>At December 31,</b> |
|-----------------|------------------------|
|                 | <b>2006</b>            |
| Argentina       | 6,339                  |
| Italy           | 3,049                  |
| Mexico          | 3,031                  |
| United States   | 2,758                  |
| Brazil          | 2,326                  |
| Romania         | 1,442                  |
| Canada          | 1,279                  |
| Japan           | 714                    |
| Other Countries | 813                    |
| Total employees | 21,751                 |



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At December 31, 2005 and December 31, 2004 the number of persons employed by Tenaris was 17,693 and 16,447 respectively. The number of our employees increased during 2006 mainly due to the acquisition of Maverick, and is expected to increase again during 2007 as a result of the Hydril acquisition.

Approximately 50% of our employees are unionized. We believe that we enjoy good or satisfactory relations with our employees and their unions in each of the countries in which we have manufacturing facilities, and we have not experienced any major strikes or other labor conflicts with a material impact on our operations over the last five years.

**E. Share Ownership**

To our knowledge, the total number of the Company's shares (in the form of ordinary shares or ADSs) owned by our directors and executive officers as of April 30, 2007 was 1,982,657 which represents 0.2% of our outstanding shares.

The following table provides information regarding share ownership by any of these persons.

| <b>Director or Officer</b> | <b>Number of Shares Held</b> |
|----------------------------|------------------------------|
| Guillermo Vogel            | 1,915,446                    |
| Carlos Condorelli          | 67,211                       |
| <b>Total</b>               | <b>1,982,657</b>             |

**Item 7. Major Shareholders and Related Party Transactions.****A. Major Shareholders**

The following table shows the beneficial ownership of our ordinary shares, as of April 30, 2007, by (1) our principal shareholders (persons or entities that own beneficially 5% or more of the Company's shares), (2) our directors and executive officers as a group, and (3) non-affiliated public shareholders.

| <b>Identity of Person or Group</b>          | <b>Number</b>        | <b>Percent</b> |
|---|----------------------|----------------|
| San Faustín <sup>(1)</sup>                  | 713,605,187          | 60.4%          |
| Directors and executive officers as a group | 1,982,657            | 0.2%           |
| Public                                      | 464,948,986          | 39.4%          |
| <b>Total</b>                                | <b>1,180,536,830</b> | <b>100.0%</b>  |

(1) Shares held by Industrial Investments CI, a wholly-owned subsidiary of San Faustín. San Faustín is controlled by Rocca & Partners. As of May 31, 2007, 119,599,294 ADSs (representing 239,198,588 shares of common stock, or 20.3% of all outstanding shares of common stock of the Company) were registered in the name of approximately 492 holders resident in the United States.

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The voting rights of our major shareholders do not differ from the voting rights of other shareholders. None of our outstanding shares have any special control rights. There are no restrictions on voting rights, nor are there, to the Company's knowledge, any agreements among shareholders of the Company that might result in restrictions on the transfer of securities or the exercise of voting rights.

The Company does not know of any significant agreements or other arrangements to which the Company is a party and which take effect, alter or terminate in the event of a change of control of the Company.

### **B. Related Party Transactions**

Tenaris is a party to several related party transactions as described below. Material related party transactions are subject to the review of the audit committee of the Company's board of directors and the requirements of Luxembourg law. For further detail on the approval process for related party transactions, see Item 6.C. Directors, Senior Management and Employees Board Practices-Audit Committee.

#### **Purchases of Raw Materials**

In the ordinary course of business, we purchase flat steel products, steel bars and other raw materials from Ternium or its subsidiaries. These purchases are made on similar terms and conditions as sales made by these companies to unrelated third parties. These transactions include:

Purchases of flat steel products for use in the production of welded pipes and accessories, which amounted to \$35.9 million, \$29.2 million and \$23.7 million in 2006, 2005 and 2004, respectively.

Purchases of steel bars for use in our seamless steel pipe operations in Venezuela, which amounted to \$30.5 million, \$36.7 million and \$22.7 million in 2006, 2005 and 2004, respectively.

Purchases of pig iron, DRI and scrap for use in the production of seamless pipes, which amounted to \$23.7 million, \$11.7 million and \$4.1 million in 2006, 2005 and 2004, respectively.

#### **Sales of Raw Materials**

In the ordinary course of business, we sell raw materials and other production inputs to Ternium or its subsidiaries. These sales are made on similar terms and conditions as purchases made by these companies from unrelated third parties. These transactions include:

Sales of ferrous scrap, and other raw materials, which amounted to \$19.2 million, \$9.8 million and \$8.7 million in 2006, 2005 and 2004, respectively.

Sales of steam and operational services from our Argentine electric power generating facility in San Nicolas. These sales amounted to \$6.4 million, \$2.6 million and \$5.3 million in 2006, 2005 and 2004, respectively. In addition, we incurred penalty charges of \$5.2 million and \$0.9 million in 2005 and 2004, respectively, for failure to deliver contractual volumes of steam.

#### **Transactions involving Matesi**

We established Matesi jointly with Sidor, a subsidiary of Ternium, to operate an HBI production facility in Venezuela. We hold 50.2% of Matesi and Sidor holds 49.8%. Transactions associated with this operation include:

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The sale of HBI to Sidor pursuant to an off-take agreement, which amounted to \$77.3 million, \$87.1 million and \$28.3 million in 2006, 2005 and 2004, respectively. The agreement establishes that Matesi is required to sell to Sidor, on a take-or-pay basis, 29.9% of Matesi's HBI production, or up to 49.8% at the election of Sidor.

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During 2004, Matesi entered into a management assistance agreement with Sidor. As part of this agreement, Matesi paid fees to Sidor totaling \$1.1 million, \$1.3 million and \$0.2 million in 2006, 2005 and 2004, respectively, related to the provision of managerial services. In addition, Sidor purchased goods and services on behalf of Matesi, totaling \$16.2 million and \$6.5 million, in 2005 and 2004, respectively.

As part of the investment agreement to finance the acquisition of Matesi's assets and its start-up, in July 2004 Matesi received loans from its shareholders, Sidor and a subsidiary of the Company, in the same proportion as their participations and under the same terms and conditions. Consequently, Matesi received from Sidor a loan for an outstanding amount at December 31, 2006 of \$58.4 million. This loan bears interest at a rate of LIBOR+2%. Interest paid on this loan amounted to \$3.6 million, \$3.3 million and \$1.8 million in 2006, 2005 and 2004, respectively. In May 2007, the boards of directors approved the partial capitalization of the loans.

Matesi paid royalties and technical assistance fees in respect of licensed technology to Hylsamex, which became a subsidiary of Ternium on August 22, 2005. These royalties and fees amounted to \$1.6 million in 2006 and \$1.6 million in 2005.

During 2006, Matesi entered into a services agreement with Sidor under which Sidor recycles by-product from Matesi's operations into raw materials. Matesi paid \$1.5 million to Sidor in 2006 under this agreement.

### **Purchase Agency Services**

Until September 2006, we provided purchase agency services to Ternium or its subsidiaries through our subsidiary Exiros. In October 2006, Ternium acquired a 50% interest in Exiros, and we retained the remaining 50%. The transaction amounted to \$2.3 million.

Until September 2006, we received fees totaling \$7.1 million, \$4.8 million, and \$4.2 million in 2006, 2005 and 2004, respectively. Since October 2006, fees from Tenaris to Exiros for agent services amounted to \$4.7 million.

### **Supply of Natural Gas**

We are party to contracts with Tecpetrol, TGN and Litoral Gas relating to the supply of natural gas to our operations in Argentina. Tecpetrol is a company controlled by San Faustin engaged in oil and gas exploration and production and has rights to various oil and gas fields in Argentina and elsewhere in Latin America. TGN operates two major pipelines in Argentina connecting the major gas basins of Neuquén and Noroeste-Bolivia to the major consumption centers in Argentina, while Litoral Gas is a company that distributes gas in the Province of Santa Fe and in the northeastern section of the Province of Buenos Aires. San Faustin holds significant but non-controlling interests in TGN and Litoral Gas.

Tecpetrol supplies Siderca with the balance of its natural gas requirements not supplied by its principal gas supplier, Repsol YPF, on terms and conditions that are equivalent to those between Repsol YPF and Siderca. In April, 2003, we entered into an agreement with Tecpetrol for the delivery of 760 million cubic meters of natural gas to our Campana plant and to our San Nicolás power generation facility over a period of five years. Under the terms of this agreement, we prepaid a portion of the gas deliveries, corresponding to \$15.3 million. We consumed the entire prepaid amount by February 2006, but we continue to take deliveries under the contract at non-preferential prices. Tecpetrol's sales to Tenaris amounted to \$8.9 million, \$2.8 million and \$5.5 million in 2006, 2005 and 2004, respectively.

TGN charges Siderca a price to transport its natural gas supplies that is equivalent on a comparable basis to prices paid by other industrial users. The Argentine government regulates the general framework under which TGN operates and prices its services. TGN's sales to Tenaris amounted to \$1.4 million in 2006 and \$1.6 million in each of 2005 and 2004.

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Litoral Gas's sales to Tenaris totaled \$2.7 million in 2006, \$1.7 million in 2005 and \$1.6 million in 2004. In addition, in 2005 and 2004, we incurred penalty charges of \$0.9 million and \$0.7 million for failure to purchase the minimum contract volumes.

### **Provision of Engineering and Labor Services**

We contract with certain companies controlled by San Faustin engineering and non-specialist manual labor services, such as cleaning, general maintenance, handling of by-products and construction services. Fees accrued for these services in the aggregate amounted to \$59.2 million, \$39.5 million and \$30.2 million in 2006, 2005 and 2004, respectively.

### **Sales of Steel Pipes and Sucker Rods**

In the ordinary course of business, we sell steel pipes, sucker rods and related services to other companies controlled by San Faustin. These sales, which are made principally to companies involved in the construction of gas pipelines and to Tecpetrol and joint ventures in which Tecpetrol participates, for its oil and gas drilling operations, are made on similar terms and conditions as sales to unrelated third parties. Our sales of steel pipes and sucker rods as well as logistical and certain other services to other companies controlled by San Faustin amounted to \$72.8 million, \$71.3 million and \$40.2 million in 2006, 2005 and 2004, respectively.

### **Sales of Other Products and Services**

In addition to sales of pipes and sucker rods, we enter into sales transactions with companies controlled by San Faustin for the sale of other products and services. The most significant transactions include:

The sale of industrial equipment for oil platforms, which amounted to \$7.4 million in 2006 and \$13.4 million in 2005.

In July 2006, through our subsidiary Information Systems & Technologies, we entered into contracts with Ternium and other companies controlled by San Faustin for the rendering of technology and information services. Sales to Ternium amounted to \$1.6 million and sales to other companies controlled by San Faustin amounted to \$1.5 million.

### **Financial Operations and Administrative Services**

Finma S.A. provides administrative and legal support services to its affiliates in Argentina, including us. In August 2006, Finma was reorganized with Siderca, Siderar and another company controlled by San Faustín with operations in Argentina acquiring one third each from a group of former directors of companies controlled by San Faustín. Fees accrued for these services amounted to \$5.1 million, \$4.1 million and \$2.4 million in 2006, 2005 and 2004, respectively.

### **Other Transactions**

During 2005, we entered into a contract with Techint CimiMontubi for the provision of engineering services for the construction of a gas-fired combined heat and power plant at Dalmine, for a total amount of \$15 million. Pursuant to the contract, we paid \$4.6 million during 2006 and \$6.6 million during 2005.

During 2006, we entered into a contract with Techint Compagnia Tecnica for the provision of furnaces for our integrated production facilities in Argentina and Mexico. Supplies received amounted to \$15.8 million in 2006.

On December 1, 2006, we completed the sale of a 75% participation in DaEn to E.ON Sales and Trading GmbH. During December 2006, Tenaris purchased energy to DaEn for an amount of \$12.1 million.



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In addition, in the ordinary course of business, from time to time, we carry out other transactions and enter into other arrangements with other affiliates, none of which are believed to be material.

### **C. Interest of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See Item 18 and pages F-1 through F-62 for our audited consolidated financial statements.

### **Legal Proceedings**

Tenaris is involved in litigation arising from time to time in the ordinary course of business. Based on management's assessment it is not anticipated that the ultimate resolution of pending litigation will result in amounts in excess of recorded provisions that would be material to Tenaris' consolidated financial position or results of operations.

#### ***BHP Proceedings***

On December 30, 2003 Dalmine and a consortium led by BHP Billiton Petroleum Ltd., or BHP, settled a litigation concerning the failure of an underwater pipeline. The pipe that was the subject of the litigation was manufactured and sold, and the tort alleged by BHP took place, prior to the privatization of Dalmine. According to the settlement terms, Dalmine paid BHP a total of GBP 108.0 million (\$207.2 million), including expenses. Techint Investments Netherlands B.V. ( Tenet ) the subsidiary party of the Company that was party to the Dalmine privatization contract commenced arbitration proceedings against Fintecna S.p.A., or Fintecna, an Italian state-owned entity and successor to ILVA S.p.A., the former owner of Dalmine, seeking indemnification from Fintecna for any amounts paid or payable by Dalmine to BHP. On December 28, 2004, an arbitral tribunal rendered a final award in the arbitration proceeding against Fintecna, pursuant to which, Fintecna paid Tenaris a total amount of Euro 93.8 million (\$127.2 million) on March 15, 2005. Neither party has any further outstanding obligations in respect of the BHP litigation.

#### ***Maverick Litigation***

On December 11, 2006, The Bank of New York, or BNY, as trustee for the holders of the Maverick 2004 4% Convertible Senior Subordinated Notes due 2033 issued pursuant to an indenture between Maverick and BNY, filed a complaint against Maverick and the Company in the United States District Court for the Southern District of New York. The complaint alleges that our acquisition of Maverick triggered the "Public Acquirer Change of Control" provisions of the indenture. The complaint asserts breach of contract claim against Maverick for refusing to deliver the consideration specified in the Public Acquirer Change of Control provision of the indenture to noteholders who tendered their notes for such consideration, seeks a declaratory judgment that our acquisition of Maverick was a Public Acquirer Change of Control under the indenture, and asserts claims for tortious interference with contract and unjust enrichment against the Company.

We believe that these claims are without merit. Accordingly, no provision was recorded in our financial statements. For further information about Maverick Litigation, please see note 26 to our consolidated financial statement included in this annual report.

#### ***U.S. Seamless Steel Pipe Antidumping and Countervailing Duty Proceedings***

Our OCTG and certain other products have been subject to substantial antidumping and countervailing (*i.e.*, anti-subsidy) duties in the United States since 1995. As a result, the U.S. market was essentially closed to many of our principal products. We have brought repeated legal challenges to the imposition of these antidumping duties and on May 31, 2007, the U.S. International Trade Commission, or U.S. ITC, voted to revoke the antidumping duties in



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respect of the imports of OCTG products produced by our main seamless pipe manufacturing facilities. This followed previous votes to revoke antidumping duties on the import of small diameter seamless standard, line and pressure, or SL&P, pipe from Argentina in April 2007 and on the import of large diameter SL&P pipe from Mexico in May 2006. However, these decisions could be appealed by petitioners.

The United States used to impose the following duties on certain of our products sourced from:

*Argentina:* OCTG exports by Tenaris from Argentina to the United States have been subject to antidumping duties of 1.36% since August 1995. Although this antidumping duty was relatively low, the United States could, through annual administrative reviews, subsequently apply higher antidumping duties retroactively. Also since August 1995, the United States has imposed an antidumping duty of 108.13% to all small diameter seamless standard, line and pressure, or SL&P, pipe exports by Tenaris from Argentina. The U.S. government decided to maintain the antidumping duties applicable to our OCTG and seamless SL&P pipe exports from Argentina for an additional five years following its five-year review in July 2001, with the exception of duties related to drill pipe, which were revoked effective August 11, 2000. We have prevailed in all countervailing duty proceedings, and consequently, our exports to the United States from Argentina are not currently subject to countervailing duties. We originally challenged the U.S. government's decision regarding the OCTG and small diameter SL&P pipe sunset reviews before the Court of International Trade, or CIT, in New York but subsequently dismissed our claims in favor of the Argentine Government's challenge of the U.S. decision before the World Trade Organization, or WTO, under the rules of the Dispute Settlement Understanding, or DSU.

In April 2007 and May 2007, the U.S. ITC voted to revoke antidumping duties on: the import of small diameter seamless standard, line and pressure, or SL&P, pipe from Argentina and on the imports of OCTG products from our seamless pipe manufacturing facility in Argentina, respectively. However, U.S. Steel has appealed the decision of the U.S. ITC before the CIT regarding seamless line pipe from Argentina and other petitioners could do the same regarding OCTG products.

*Mexico.* OCTG exports by Tenaris from Mexico to the United States have been subject to antidumping duties since 1995. Originally set at 23.8% and subsequently adjusted to 21.7%, the duties were reduced to zero in 1999. After its five-year review in July 2000, the United States restored the antidumping duties on our exports of OCTG casing and tubing, but revoked the duties on our OCTG drill pipe effective August 11, 2000. At the same time, the U.S. Department of Commerce denied our request that the order be revoked with respect to exports after three consecutive annual reviews resulting in findings of no dumping. We have challenged both the U.S. government's OCTG sunset review decision, and the Department of Commerce's decision not to revoke the order after the third consecutive no dumping finding before two different NAFTA panels. One of the panels decided not to revoke the decision in light of three consecutive negative findings subsequently upheld by the Department of Commerce. The other, initiated against the sunset review decision, has remanded the case to the Department of Commerce four times, and the case remains unresolved. Furthermore, the Mexican Government has filed a similar challenge before the WTO under the rules of the DSU.

Additionally, the United States has applied antidumping duties of 19.6% (subsequently adjusted to 15.1%) on our large diameter SL&P pipe exports from Mexico, with the exception of certain grades of line pipe used in deep water (1,500 feet or more) applications. Subsequently, the U.S. government revoked these antidumping duties in May 2006 following a sunset review in which it found no likelihood of the continuation or recurrence of injury upon the lifting of the duties.

In April 2007 and May 2007, the U.S. ITC voted to revoke antidumping duties on the imports of large diameter SL&P pipe from Mexico and on the imports of OCTG products from our seamless pipe manufacturing facility in Mexico, respectively.

*Italy.* OCTG exports by Tenaris from Italy to the United States have been subjected to antidumping duties of 49.78% and countervailing duties of 1.47%. Following its five-year review in July 2000, the U.S. government renewed these antidumping and countervailing duties for an additional five years. The five-year review of

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SL&P exports from Italy to the United States, initiated in 2000, led to the elimination of the antidumping and countervailing duties on small diameter SL&P from Italy. A new sunset review is set to take place in June 2006. In December 2006 the U.S. government revoked the countervailing duties following a sunset review in which it found no likelihood of the continuation or recurrence of subsidized imports upon the lifting of the duties. In May 2007 the U.S. ITC voted to revoke the antidumping duties on imports of OCTG products from our seamless pipe manufacturing facility in Italy.

*Japan.* OCTG exports by NKK Tubes to the United States have been subject to antidumping duties of 44.20% since August 1995. Following its five-year review in July 2000, the U.S. government renewed its antidumping duties for an additional five years. In June 2000, the United States imposed antidumping duty orders on large and small diameter seamless SL&P from Japan, with the exception of large diameter line pipe used in deep water applications. The antidumping duty rate for large diameter line pipe from NKK Tubes is 68.88% and for small diameter is 70.43%. The U.S. government has also extended for additional five years its antidumping duties against small and large diameter seamless line pipe, standard and pressure pipe from Japan. In May 2007 the U.S. ITC voted to revoke the antidumping duties on imports of OCTG products from our seamless pipe manufacturing facility in Japan.

*Romania:* SL&P pipe exports to the United States from Romania have been subject to antidumping duties at a rate of 1.35% since August 2000. Subsequently, the U.S. government conducted administrative reviews in which it determined the appropriate level of antidumping duties to be zero percent during two consecutive years. During the third and fourth reviews, the U.S. government found the margin to be 15.15%, which is the current antidumping duty rate. In April 2006, the U.S. government has extended for additional five year the antidumping duties against small diameter seamless pipe, standard and pressure pipe from Romania. The decision has been appealed before the CIT.

### ***Conversion of tax loss carry-forwards***

On December 18, 2000, the Argentine tax authorities notified Siderca of an income tax assessment related to the conversion of tax loss carry-forwards into debt consolidation bonds under Argentine Law No. 24.073. The adjustments proposed by the tax authorities represent an estimated contingency of ARS70.2 million (approximately \$23.0 million) at December 31, 2006 in taxes and penalties. We believe that the ultimate resolution of the matter will not result in a material obligation. Accordingly, no provision was recorded in our financial statements.

### ***Asbestos-Related Litigation***

As of December 31, 2006, our subsidiary Dalmine was subject to thirteen civil proceedings for work-related injuries arising from the use of asbestos in its manufacturing processes during the period from 1960 to 1980. The total claims pending against Dalmine were thirty-two (of which, three were covered by insurance). During 2006 two new claims were filed, four claims were dismissed and one claim was settled. At December 31, 2006 aggregate settlement costs for Tenaris were Euro 3.8 million.

In addition to the previously known 13 civil proceedings, 18 asbestos-related out-of-court claims and 1 civil party claim, 21 new asbestos-related out-of-court claims and 1 asbestos civil proceedings have been reported to Dalmine during 2007; no claims were dismissed or settled. Accordingly, as of March 31, 2007, the total asbestos-related claims pending against Dalmine were 54 (of which, 3 are covered by insurance). Aggregate settlement costs amount to Euro 3.8 million. Dalmine estimates that its potential liability in connection with the claims above that are not yet settled is approximately Euro 20.4 million (\$ 27.2 million) of which Euro 7.8 million (\$10.4 million) relate to the claims and proceedings reported to Dalmine during 2007.

Accruals for Dalmine's potential liability are based on the average of the amounts paid by Dalmine for asbestos-related claims plus an additional amount related to some reimbursements requested by the social security authority. The maximum potential liability is uncertain as in some cases the requests for damages do not specify amounts, and instead is to be determined by the court. The timing of payment of the amounts claimed cannot be determined at this time.

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### ***Other Proceedings***

We are also involved in legal proceedings incidental to the normal conduct of our business, for which we have made provisions in accordance with our corporate policy and any applicable rules. We believe that our provisions are adequate. Based on the information currently available to us, we do not believe that the outcomes of these proceedings are likely to be, individually or in the aggregate, material to our consolidated financial position.

### **Dividend Policy**

We do not have, and have no current plans to establish, a formal dividend policy governing the amount and payment of dividends. The amount and payment of dividends has to be determined by a majority vote of our shareholders, generally, but not necessarily, based on the recommendation of our board of directors. Our controlling shareholder has the discretion to determine the amount and payment of future dividends. All shares of our capital stock rank *pari passu* with respect to the payment of dividends.

On May 25, 2005, the Company's shareholders approved a cash dividend in the amount of \$0.169 per share of common stock currently issued and outstanding, which in the aggregate amounted to approximately \$200 million. The cash dividend was paid on June 13, 2005.

On June 7, 2006, the Company's shareholders approved an annual dividend in the amount of \$0.30 per share of common stock currently issued and outstanding. The amount approved included the interim dividend previously paid on November 16, 2005, in the amount of \$0.127 per share. We paid the balance of the annual dividend amounting to \$0.173 per share (\$0.346 per ADS) on June 16, 2006. In the aggregate, the interim dividend paid in November 2005 and the balance paid in June 2006 amounted to approximately \$354 million.

On June 6, 2007, the Company's shareholders approved an annual dividend in the amount of \$0.30 per share of common stock currently issued and outstanding, which in the aggregate amounted to approximately \$354 million. The cash dividend was paid on June 21, 2007.

The Company conducts and will continue to conduct all of its operations through subsidiaries and, accordingly, its main source of cash to pay dividends, among other possible sources, will be the dividends received from its subsidiaries. See Item 3.D. Risk Factors Risks Relating to Our Business. The Company's ability to pay cash dividends depends on the results of operations and financial condition of its subsidiaries and may be restricted by legal, contractual or other limitations.

Dividends may be lawfully declared and paid if the Company's profits and distributable reserves are sufficient under Luxembourg law. The board of directors has power to initiate dividend installments pursuant to Luxembourg law, but payment of the dividends must be approved by the Company's shareholders at the annual shareholders' meeting, subject to the approval of our annual accounts.

Under Luxembourg law, at least 5% of the Company's net profits per year must be allocated to the creation of a legal reserve until such reserve has reached an amount equal to 10% of our share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net profits again must be allocated toward the reserve. The legal reserve is not available for distribution. At December 31, 2006, the Company's legal reserve represented 10% of its share capital.

Furthermore, as long as the outstanding amount under the Company's syndicated loan facility for the Hydril acquisition is equal to or higher than \$1 billion, we may not distribute dividends in excess of the greater of \$475 million and 25% of the consolidated operating profit for the previous fiscal year.

### **B. Significant Changes**

Except as otherwise disclosed in this annual report, there has been no undisclosed significant change since the date of the annual financial statements.

**Table of Contents****Item 9. The Offer and Listing****A. Offer and Listing Details**

The Company's shares are listed on the Buenos Aires Stock Exchange and the Mexican Stock Exchange and its ADSs are listed on the NYSE under the symbol TS. The Company's shares are also listed on the Italian Stock Exchange under the symbol TEN. Trading on the NYSE, the Buenos Aires Stock Exchange and the Mexican Stock Exchange began on December 16, 2002, and trading on the Italian Stock Exchange began on December 17, 2002.

As of May 31, 2007, a total of 1,180,536,830 shares were registered in the Company's shareholder register. As of May 31, 2007, a total of 239,198,588 shares were registered in the name of the depository for the Company's ADR program. On May 31, 2007, the closing sales price for the Company's ADSs on the NYSE was \$49.65, its shares on the Italian Stock Exchange was 18.20, on the Buenos Aires Stock Exchange was ARS75.10 and on the Mexico Stock Exchange was MXP265.49.

*New York Stock Exchange*

As of May 31, 2007, a total of 119,599,294 ADSs were registered of record. Each ADSs represents 2 shares of the Company's stock. JPMorgan Chase, as successor to Morgan Guaranty Trust Company of New York, or Morgan Guaranty, acts as the Company's depository for issuing ADRs evidencing the ADSs. Fluctuations between the Euro and the U.S. dollar will affect the U.S. dollar equivalent of the price of the shares on the Italian Stock Exchange and the price of the ADSs on the NYSE. Fluctuations between the Argentine peso and the U.S. dollar will affect the U.S. dollar equivalent of the price of the shares on the Buenos Aires Stock Exchange and the price of the ADSs on the NYSE. Fluctuations between the Mexican peso and the U.S. dollar will affect the U.S. dollar equivalent of the price of the shares on the Mexico Stock Exchange and the price of the ADSs on the NYSE.

The following table sets forth, for the periods indicated, the high and low quoted prices for the Company's shares, in the form of ADSs, traded on the NYSE (Source: Bloomberg LP).

|                |  |                      |            |
|----------------|--|----------------------|------------|
|                |  | <b>Price per ADS</b> |            |
| <b>2002</b>    |  | <b>High</b>          | <b>Low</b> |
| December       |  | 3.87                 | 3.50       |
|                |  |                      |            |
|                |  | <b>Price per ADS</b> |            |
| <b>2003</b>    |  | <b>High</b>          | <b>Low</b> |
| Full year      |  | 6.66                 | 3.86       |
|                |  |                      |            |
|                |  | <b>Price per ADS</b> |            |
| <b>2004</b>    |  | <b>High</b>          | <b>Low</b> |
| Full year      |  | 10.29                | 5.62       |
|                |  |                      |            |
|                |  | <b>Price per ADS</b> |            |
| <b>2005</b>    |  | <b>High</b>          | <b>Low</b> |
| First quarter  |  | 13.39                | 9.04       |
| Second quarter |  | 16.02                | 10.70      |
| Third quarter  |  | 27.71                | 15.70      |
| Fourth quarter |  | 28.58                | 20.97      |
| Full year      |  | 28.58                | 9.04       |

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|                 | Price per ADS |       |
|-----------------|---------------|-------|
|                 | High          | Low   |
| <b>2006</b>     |               |       |
| First quarter   | 37.25         | 24.42 |
| Second quarter* | 48.26         | 31.85 |
| Third quarter   | 40.95         | 34.32 |
| Fourth quarter  | 51.02         | 34.05 |
| Full year       | 51.02         | 24.42 |

|                        | Price per ADS |       |
|------------------------|---------------|-------|
|                        | High          | Low   |
| <b>Last Six Months</b> |               |       |
| December 2006          | 51.02         | 45.52 |
| January 2007           | 50.35         | 46.15 |
| February 2007          | 48.20         | 44.46 |
| March 2007             | 46.66         | 41.48 |
| April 2007             | 48.59         | 46.14 |
| May 2007               | 49.65         | 43.50 |

\* The ratio of ordinary shares per ADS was changed from a ratio of one ADS equal to ten ordinary shares to a new ratio of one ADS equal to two ordinary shares in April 2006. Prices for the ADSs before this date have been restated using the new ratio.  
*Italian Stock Exchange*

The following table sets forth, for the periods indicated, the high and low quoted prices for the Company's shares (in Euros per share), traded on the Italian Stock Exchange ( Source: Bloomberg LP ).

|             | Price per Share |      |
|-------------|-----------------|------|
|             | High            | Low  |
| <b>2002</b> |                 |      |
| December    | 1.84            | 1.51 |

|             | Price per Share |      |
|-------------|-----------------|------|
|             | High            | Low  |
| <b>2003</b> |                 |      |
| Full year   | 2.64            | 1.79 |

|             | Price per Share |      |
|-------------|-----------------|------|
|             | High            | Low  |
| <b>2004</b> |                 |      |
| Full year   | 3.92            | 2.39 |

|                | Price per Share |      |
|----------------|-----------------|------|
|                | High            | Low  |
| <b>2005</b>    |                 |      |
| First quarter  | 4.97            | 3.37 |
| Second quarter | 6.58            | 4.13 |
| Third quarter  | 11.35           | 6.44 |
| Fourth quarter | 11.74           | 8.48 |
| Full year      | 11.74           | 3.37 |

|                | Price per Share |       |
|----------------|-----------------|-------|
|                | High            | Low   |
| <b>2006</b>    |                 |       |
| First quarter  | 15.30           | 10.03 |
| Second quarter | 18.72           | 12.84 |

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|                |       |       |
|----------------|-------|-------|
| Third quarter  | 15.99 | 13.47 |
| Fourth quarter | 19.63 | 13.54 |
| Full year      | 19.63 | 10.03 |



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| <b>Last Six Months</b> | <b>Price per Share</b> |            |
|------------------------|------------------------|------------|
|                        | <b>High</b>            | <b>Low</b> |
| December 2006          | 19.63                  | 17.12      |
| January 2007           | 19.40                  | 17.87      |
| February 2007          | 18.46                  | 17.22      |
| March 2007             | 17.49                  | 15.66      |
| April 2007             | 17.89                  | 17.12      |
| May 2007               | 18.20                  | 16.20      |

The Italian Stock Exchange, managed by Borsa Italiana, S.p.A., was founded in 1997 following the privatization of the exchange and became operational on January 2, 1998.

Borsa Italiana S.p.A. organizes and manages the Italian Stock Exchange with the participation of nearly 130 domestic and international brokers who operate in Italy or from abroad through remote membership, using a completely electronic trading system for the real-time execution of trades. Blue-chip securities shall be traded using the auction and continuous trading method from 8:00 A.M. to 5:35 P.M. each business day.

*Buenos Aires Stock Exchange*

The following table sets forth, for the periods indicated, the high and low quoted prices for the Company's shares (in nominal Argentine pesos per share), traded on the Buenos Aires Stock Exchange ( Source: Bloomberg LP ).

| <b>2002</b> | <b>Price per Share</b> |            |
|-------------|------------------------|------------|
|             | <b>High</b>            | <b>Low</b> |
| December    | 6.95                   | 6.40       |

| <b>2003</b> | <b>Price per Share</b> |            |
|-------------|------------------------|------------|
|             | <b>High</b>            | <b>Low</b> |
| Full year   | 9.86                   | 6.35       |

| <b>2004</b> | <b>Price per Share</b> |            |
|-------------|------------------------|------------|
|             | <b>High</b>            | <b>Low</b> |
| Full year   | 15.05                  | 8.15       |

| <b>2005</b>    | <b>Price per Share</b> |            |
|----------------|------------------------|------------|
|                | <b>High</b>            | <b>Low</b> |
| First quarter  | 19.65                  | 13.35      |
| Second quarter | 23.10                  | 15.35      |
| Third quarter  | 40.00                  | 22.45      |
| Fourth quarter | 41.05                  | 31.55      |
| Full year      | 41.05                  | 13.35      |

| <b>2006</b>    | <b>Price per Share</b> |            |
|----------------|------------------------|------------|
|                | <b>High</b>            | <b>Low</b> |
| First quarter  | 57.15                  | 36.45      |
| Second quarter | 72.30                  | 49.20      |
| Third quarter  | 62.85                  | 53.00      |
| Fourth quarter | 75.60                  | 53.00      |
| Full year      | 75.60                  | 36.45      |

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| <b>Last Six Months</b> | <b>Price per Share</b> |            |
|------------------------|------------------------|------------|
|                        | <b>High</b>            | <b>Low</b> |
| December 2006          | 75.60                  | 69.30      |
| January 2007           | 76.10                  | 70.10      |
| February 2007          | 74.00                  | 68.30      |
| March 2007             | 71.60                  | 63.70      |
| April 2007             | 73.90                  | 70.70      |
| May 2007               | 75.10                  | 67.00      |

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The Buenos Aires Stock Market, which is affiliated with the Buenos Aires Stock Exchange, is the largest stock market in Argentina. The Buenos Aires Stock Market is a corporation whose approximately 130 shareholder members are the only individuals and entities authorized to trade in securities listed on the Buenos Aires Stock Exchange. Trading on the Buenos Aires Stock Exchange is conducted electronically or by continuous open outcry from 11:00 A.M. to 5:00 P.M. each business day.

Although the Buenos Aires Stock Exchange is one of Latin America's largest securities exchanges in terms of market capitalization, it remains relatively small and illiquid compared to major world markets and, therefore, subject to greater volatility.

*Mexican Stock Exchange*

The following table sets forth, for the periods indicated, the high and low quoted prices for the Company's shares (in nominal Mexican pesos per share), traded on the Mexican Stock Exchange (Source: Bloomberg LP).

|                        | Price per Share |        |
|------------------------|-----------------|--------|
|                        | High            | Low    |
| <b>2002</b>            |                 |        |
| December               | 19.80           | 17.85  |
|                        |                 |        |
|                        |                 |        |
| <b>2003</b>            |                 |        |
| Full year              | 36.00           | 19.81  |
|                        |                 |        |
|                        |                 |        |
| <b>2004</b>            |                 |        |
| Full year              | 57.35           | 33.00  |
|                        |                 |        |
|                        |                 |        |
| <b>2005</b>            |                 |        |
| First quarter          | 73.65           | 51.95  |
| Second quarter         | 82.28           | 61.50  |
| Third quarter          | 150.00          | 84.00  |
| Fourth quarter         | 152.00          | 113.20 |
| Full year              | 152.00          | 51.95  |
|                        |                 |        |
|                        |                 |        |
| <b>2006</b>            |                 |        |
| First quarter          | 200.52          | 130.31 |
| Second quarter         | 258.50          | 187.00 |
| Third quarter          | 229.60          | 190.00 |
| Fourth quarter         | 276.50          | 189.70 |
| Full year              | 276.50          | 130.31 |
|                        |                 |        |
|                        |                 |        |
| <b>Last Six Months</b> |                 |        |
| December 2006          | 276.50          | 250.85 |
| January 2007           | 274.71          | 255.00 |
| February 2007          | 266.86          | 254.26 |

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|            |        |        |
|------------|--------|--------|
| March 2007 | 257.30 | 233.00 |
| April 2007 | 266.03 | 252.11 |
| May 2007   | 265.49 | 236.64 |

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The Mexican Stock Exchange is the only stock exchange in Mexico. Trading on the Mexican Stock Exchange is conducted electronically from 8:30 A.M. to 3:00 P.M. each business day.

Although the Mexican Stock Exchange is one of Latin America's largest securities exchanges in terms of market capitalization, it remains relatively small and illiquid compared to major world markets and, therefore, subject to greater volatility.

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

See Offer and Listing Details .

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the Issue**

Not applicable.

## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association** **General**

The following is a summary of certain rights of holders of the Company's shares. These rights are set out in our articles of association or are provided by applicable Luxembourg law, and may differ from those typically provided to shareholders of U.S. companies under the corporation laws of some states of the United States of America. This summary is not exhaustive and does not contain all information that may be important to you. For more complete information, you should read our articles of association, which is an exhibit to this annual report.

The Company is a joint stock corporation (*société anonyme holding*) organized under the laws of Luxembourg. Its object and purpose, as set forth in Article 2 of its articles of association, is the taking of interests, in any form, in corporations or other business entities, and the administration, management, control and development thereof. The Company is registered under the number B85 203 in the Registre du Commerce et des Sociétés.

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We have an authorized share capital of a single class of 2,500,000,000 shares with a par value of \$1.00 per share upon issue. There were 1,180,536,830 shares issued as of May 31, 2007. All shares are fully paid.

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The authorized share capital is fixed by our articles of association as amended from time to time with the approval of shareholders on an extraordinary shareholders' meeting. There are no redemption or sinking fund provisions in the articles of association.

Our articles of association authorize the board of directors for a period of five years following (the) publication of the authorization in the Luxembourg official gazette to increase from time to time its issued share capital in whole or in part within the limits of the authorized capital. On June 6, 2007, the shareholders renewed this authority for an additional five years. Accordingly, until 2012, the Company's board of directors may issue, without further authorization, up to 1,319,463,170 additional shares. Under its articles of association, any issuance of new shares of the Company pursuant to the authorization granted to its board of directors must grant its existing shareholders a preferential right to subscribe for such newly-issued shares, except:

in circumstances in which the shares are issued for consideration other than money;

with respect to shares issued as compensation to directors, officers, agents or employees, its subsidiaries or affiliates; *and*

with respect to shares issued to satisfy conversion or option rights created to provide compensation to directors, officers, agents or employees, its subsidiaries or affiliates.

Any shares to be issued as compensation or to satisfy conversion or option rights may not exceed 1.5% of our issued capital stock.

## **Dividends**

Subject to applicable law, all shares (including shares underlying ADSs) are entitled to participate equally in dividends when, as and if declared by the general shareholders' meeting out of funds legally available for such purposes. Under Luxembourg law, claims for dividends will lapse five years after the date such dividends are declared. Shareholders may, at the general shareholders' meeting, which every shareholder has the right to attend in person or by proxy, declare a dividend under Article 21 of our articles of association.

Under Article 21 of the articles of association, our board of directors has the power to pay interim dividends in accordance with the conditions set forth in Section 72-2 of the amended Luxembourg law of 10th August, 1915 on commercial companies.

## **Voting Rights; Shareholders' Meetings; Election of Directors**

Each share entitles the holder to one vote at the Company's general shareholders' meetings. Shareholder action by written consent is not permitted, but proxy voting is permitted. Notices of general shareholders' meetings are governed by the provisions of Luxembourg law and the Company's articles of association. Notices of such meetings must be published twice, at least at ten (10) days intervals, the second notice appearing at least ten (10) days prior to the meeting, in the Luxembourg Official Gazette and in a leading newspaper having general circulation in Luxembourg. If an extraordinary general shareholders' meeting is adjourned for lack of a quorum, notices must be published twice, in the Luxembourg Official Gazette and two Luxembourg newspapers, at twenty (20) days intervals, the second notice appearing at least twenty (20) days prior to the meeting. In case our shares are listed on a foreign regulated market, notices of general shareholders' meetings shall also be published in accordance with the publicity requirements of such regulated market. At an ordinary general shareholders' meeting, there is no quorum requirement, and resolutions are adopted by a simple majority vote of the shares present or represented and voted. An extraordinary general shareholders' meeting must have a quorum of at least 50% of the issued and outstanding shares. If a quorum is not reached, such meeting may be reconvened at a later date with no quorum requirements by means of the appropriate notification procedures provided for by Luxembourg company law. In both cases, Luxembourg company law and the Company's articles of association require that any resolution of an extraordinary general shareholders' meeting be adopted by a two-thirds majority vote of the shares present or represented. If a

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proposed resolution consists of changing the Company's nationality or of increasing the shareholders' commitments, the unanimous consent of all shareholders is required. Directors are elected at an ordinary meeting. Cumulative voting is not permitted. As our articles of association do not provide for staggered terms, directors are elected for a maximum of one year and may be reappointed or removed at any time, with or without cause, by a majority vote of the shares present or represented and voted.

Our annual ordinary general shareholders' meeting is held at 11:00 A.M., Luxembourg time, on the first Wednesday of June of each year at the place indicated in the notices of meeting. If that day is a legal or banking holiday in Luxembourg, the meeting shall be held on the following business day.

Any shareholder who holds one or more of our shares on the fifth calendar day preceding the general shareholders' meeting (the Record Date) shall be admitted to a general shareholders' meeting. Those shareholders who have sold their shares between the Record Date and the date of the general shareholders' meeting, may not attend or be represented at the meeting.

In the case of shares held through fungible securities accounts, each shareholder may exercise all rights attached to his shares and, in particular, may participate in and vote at shareholders' meetings of the Company upon presentation of a certificate issued by the financial institution or professional depository holding the shares, evidencing such deposit and certifying the number of shares recorded in the relevant account on the Record Date. Such certificate must be filed at least five days before the meeting with the Company at its registered address or at the address stated in the convening notice or, in case the shares of the Company are listed on a regulated market, with an agent of the Company located in the country of the listing and designated in the convening notice. In the event that the shareholder votes by proxy, he shall file the required certificate and a completed proxy form within the same period of time at the registered office of the Company or with any local agent of the Company duly authorized to receive such proxies.

The board of directors and the shareholders' meeting may, if they deem so advisable, reduce these periods of time for all shareholders and admit all shareholders (or their proxies) who have filed the appropriate documents to the general shareholders' meeting, irrespective of these time limits.

## **Access to Corporate Records**

Luxembourg law and our articles of association do not generally provide for shareholder access to corporate records. Shareholders may inspect the annual accounts and auditors' reports at our registered office during the fifteen day period prior to a general shareholders' meeting.

## **Appraisal Rights**

In the event that the Company's shareholders approve:

the delisting of the Company's shares from all stock exchanges where its shares are listed at that time,

a merger in which the Company is not the surviving entity (unless the shares or other equity securities of such entity are listed on the New York or London stock exchanges),

a sale, lease, exchange or other disposition of all or substantially all of the assets of the Company,

an amendment of our articles of association that has the effect of materially changing the Company's corporate purpose,

the relocation of the Company's domicile outside of Luxembourg, *or*

amendments to our articles of association that restrict the rights of the Company's shareholders;





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dissenting or absent shareholders have the right to have their shares repurchased by the Company at (i) the average market value of the shares over the 90 calendar days preceding the shareholders' meeting or (ii) in the event that the Company's shares are not traded on a regulated market, the amount that results from applying the proportion of the Company's equity that the shares being sold represent over the Company's net worth as of the date of the applicable shareholders' meeting.

Dissenting or absent shareholders must present their claim within one month following the date of the shareholders' meeting and supply the Company with evidence of their shareholding at the time of the meeting. The Company must (to the extent permitted by applicable laws and regulations and in compliance therewith) repurchase its shares within six months following the date of the shareholders' meeting. If delisting from one or more, but not all, of the stock exchanges where the Company's shares are listed is approved, only dissenting or absent shareholders with shares held through participants in the local clearing system for that market or markets can exercise this appraisal right if:

they held the shares as of the date of the Company's announcement of its intention to delist or as of the date of publication of the call for the shareholders' meeting that approved the delisting; *and*

they present their claim within one month following the date of the shareholders' meeting and supply evidence of their shareholding as of the date of the Company's announcement or the publication of the call to the meeting. Shareholders who voted in favor of the relevant resolution are not entitled to appraisal rights.

In the event a shareholder exercises its appraisal right, applicable Luxembourg law provisions shall apply.

## **Distribution of Assets on Winding-up**

In the event of our liquidation, dissolution or winding-up, the assets remaining after allowing for the payment of all debts and expenses will be paid out to the holders of the shares in proportion to their respective holdings.

## **Transferability and Form**

Our articles of association do not impose restrictions on the transfer of our shares. The shares are issuable in registered form.

Pursuant to our articles of association, the ownership of registered shares is evidenced by the inscription of the name of the shareholder, the number of shares held by him and the amount paid on each share in our shareholders' register. In addition, our articles of association provide that our shares may be held through fungible securities accounts with financial institutions or other professional depositaries. Shares held through fungible securities accounts have the same rights and obligations as shares recorded in our shareholders' register.

Shares held through fungible securities accounts may be transferred in accordance with customary procedures for the transfer of securities in book-entry form. Shares that are not held through fungible securities accounts may be transferred by a written statement of transfer signed by both the transferor and the transferee or their respective duly appointed attorney-in-fact and recorded in our shareholders' register. The transfer of shares may also be made in accordance with the provisions of Article 1690 of the Luxembourg Civil Code. As evidence of the transfer of registered shares, we may also accept any correspondence or other documents evidencing the agreement between transferor and transferee as to the transfer of registered shares.

Fortis Banque Luxembourg S.A. maintains our shareholders' register.

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**Limitation on Securities Ownership**

There are no limitations currently imposed by Luxembourg law or the articles of association on the rights of our non-resident shareholders to hold or vote our shares.

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### **Change in Control**

Our articles of association do not contain any provision that would have the effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company. In addition, the Company does not know of any significant agreements or other arrangements to which the Company is a party and which take effect, alter or terminate in the event of a change of control of the Company.

There are no rights associated with the Company's shares other than those described above.

### **C. Material Contracts**

For a summary of any material contract entered into by us outside of the ordinary course of business during the last two years, see Item 4. Information on the Company .

### **D. Exchange Controls**

Many of the countries which are important markets for us or in which we have substantial assets have histories of substantial government intervention in currency markets, volatile exchange rates and government-imposed currency controls. These include Argentina, Brazil, Mexico, Romania and Venezuela. Venezuela and Argentina have exchange controls or limitations on capital flows, including requirements for the repatriation of export earnings, in place.

#### *Venezuela*

Venezuela imposed the current system of exchange rate controls in 2003. The Foreign Currency Administration Commission, or CADIVI, was created for the purpose of administering the new exchange control regime. Under the current exchange control regime, all purchases and sales of foreign currencies must take place with the Venezuelan central bank. The Ministry of Finance, together with the Venezuelan Central Bank, is responsible for setting the official exchange rates between the Venezuelan Bolivar and the U.S. dollar and other currencies. Currently, the exchange of the Bolivar, which was last set in March 2005, is fixed at Bs. 2150 to the U.S. dollar for purchase operations.

#### *Argentina*

Since 2002, the Argentine government has maintained a "dirty" float of the peso. The Argentine Central Bank has since intervened actively to keep the peso from appreciating in real terms. In order to reduce volatility in the exchange rate several rules and regulations have been introduced by the Argentine Government since the Public Emergency Law of January 2002. The following limitations apply to the transfer of currency in and out of Argentina:

inflows for the purpose of investments in the capital markets must post a non-transferable, non-remunerative deposit denominated in U.S. dollars for an amount equal to 30% of the underlying transaction. This deposit shall be held for a period of 365 calendar days and may not be used as collateral in any credit transaction;

inflows and outflows of foreign currency into the local exchange market, and indebtedness transactions by local residents that may result in a foreign currency payment to non-residents, must be registered with the Argentine Central Bank; *and*

funds from export revenues or financial loans received which are credited in foreign currency overseas must be converted into local currency and credited to a local banking account within a specific period of time.

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Some of these requirements do not apply to foreign trade and export finance related transactions nor to the primary placement of publicly traded securities listed in one or more exchange markets.

### **E. Taxation**

The following discussion of the material Luxembourg and United States federal income tax consequences of an investment in our ADSs is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This discussion does not address all possible tax consequences relating to an investment in our ADSs, such as the tax consequences under United States state and local tax laws.

#### **Grand Duchy of Luxembourg**

This section describes the material Luxembourg tax consequences of owning or disposing of ADSs.

*You should consult your own tax adviser regarding the Luxembourg tax consequences of owning and disposing of ADSs in your particular circumstances.*

#### ***Holding company status***

The tax treatment described below results from the tax status of the Company as a holding company under the law of July 31, 1929 and the billionaire provisions relating thereto.

Following a decision by the European Commission, the Grand-Duchy of Luxembourg has terminated its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly-listed companies including us are entitled to continue benefiting from their current tax regime until December 31, 2010.

#### ***Ownership and disposition of the Company's ADSs***

Holders of the Company's ADSs will not be subject to Luxembourg income tax, wealth tax or capital gains tax in respect of those ADSs, except for:

individual residents of Luxembourg, entities organized in Luxembourg or entities domiciled or having a permanent establishment in Luxembourg. For purposes of Luxembourg tax law, you are deemed to be an individual resident in Luxembourg, subject to treaty provisions, if you have your domicile or your usual place of residence in Luxembourg, or

non-resident holders are taxed with respect to the disposition of the Company's ADSs held for six months or less if such non-resident holder has owned alone, or together with his spouse or minor children, directly or indirectly at any time during the five years preceding the date of disposition more than 10% of the Company's share capital, or

non-resident holders are taxed with respect to the disposition of the Company's ADSs held for six months or more (x) if such non-resident holder has owned alone, or together with his spouse or minor children, directly or indirectly, at any time during the five years preceding the date of disposition, more than 10% of the Company's share capital and (y) was a Luxembourg resident taxpayer for more than 15 years and has become a non-resident tax payer less than 5 years before the moment of disposition of the ADSs.

No inheritance tax is payable by a holder of the Company's ADSs except if the deceased holder was a resident of Luxembourg at the time of death.

There is no Luxembourg transfer duty or stamp tax on the purchase or disposition of the ADSs.



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### ***Dividends received on the Company's ADSs by non-Luxembourg resident holders***

No withholding tax applies in Luxembourg on dividends distributed by the Company. No taxes apply in Luxembourg on dividends received by holders who are not resident in Luxembourg and who do not maintain a permanent establishment in Luxembourg to which the holding of the ADSs is effectively connected.

### **United States federal income taxation**

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning ADSs. It applies to you only if you hold your ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

a dealer in securities,

a bank,

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,

a tax-exempt organization,

a person who invests through a pass-through entity, including a partnership,

a life insurance company,

a person liable for alternative minimum tax,

a person that actually or constructively owns 10% or more of the Company's voting stock or its ADSs,

a person that holds ADSs as part of a straddle or a hedging or conversion transaction, *or*

a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, as well as on the Income Tax Treaty between Luxembourg and the United States (the "Treaty"). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Each such partner holding the ADSs is urged to consult his, her or its own tax advisor.

You are a U.S. holder if you are a beneficial owner of ADSs and you are:

a citizen or resident of the United States,

a domestic corporation,

an estate whose income is subject to United States federal income tax regardless of its source, *or*

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.



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In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax.

### ***Taxation of dividends***

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend the Company pays out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends the Company pays with respect to the ADSs generally will be qualified dividends.

You must include any Luxembourg tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of shares, or the depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the ADSs and thereafter as capital gain.

Subject to certain limitations, any Luxembourg tax withheld in accordance with the Treaty and paid over to Luxembourg will be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to you under Luxembourg law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

### ***Taxation of capital gains***

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your ADSs. Capital gain of a non-corporate U.S. holder that is recognized before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

### ***PFIC rules***

Based on the Company's expected income and assets, it is highly unlikely that the ADSs will be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If the Company were to be treated as a PFIC, unless a U.S. holder elects to be taxed annually on a mark-to-market basis with respect to the ADSs, gain realized on the sale or other disposition of your ADSs would in general not be treated as capital gain. Instead, if you are a U.S. Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated,

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together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your ADSs will be treated as stock in a PFIC if the Company were a PFIC at any time during your holding period in your ADSs. Dividends that you receive from the Company will not be eligible for the special tax rates applicable to qualified dividend income if the Company is treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We are required to file annual and special reports and other information with the SEC. You may read and copy any documents filed by the Company at the SEC's public reference room at 100 F Street, N.E., Room 1580 Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website at <http://www.sec.gov> which contains reports and other information regarding registrants that file electronically with the SEC.

We are subject to the reporting requirements of the Exchange Act of 1934, as applied to foreign private issuers. Because we are a foreign private issuer, the SEC's rules do not require us to deliver proxy statements or to file quarterly reports. In addition, our insiders are not subject to the SEC's rules that prohibit short-swing trading. We prepare quarterly and annual reports containing consolidated financial statements. Our annual consolidated financial statements are certified by an independent accounting firm. We submit quarterly financial information with the SEC on Form 6-K simultaneously with or promptly following the publication of that information in Luxembourg or any other jurisdiction in which our securities are listed, and will file annual reports on Form 20-F within the time period required by the SEC, which is currently six months from the close of the fiscal year on December 31. These quarterly and annual reports may be reviewed at the SEC's Public Reference Room. Reports and other information filed electronically with the SEC are also available at the SEC's website.

As a foreign private issuer under the Securities Act, we are not subject to the proxy rules of Section 14 of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act) or the insider short-swing profit reporting requirements of Section 16 of the Exchange Act.

The Company has appointed JPMorgan Chase to act as depositary for its ADSs. During the time there continue to be ADSs deposited with the depositary, it will furnish the depositary with:

our annual reports, *and*

summaries of all notices of shareholders' meetings and other reports and communications that are made generally available to the Company's shareholders.

The depositary will, as provided in the deposit agreement, arrange for the mailing of summaries in English of the reports and communications to all record holders of our ADSs. Any record holder of ADSs may read the reports, notices or summaries thereof, and communications at the depositary's office located at One Chase Manhattan Plaza, New York, New York 10081.

Whenever a reference is made in this annual report to a contract or other document, please be aware that such reference is not necessarily complete and that you should refer to the exhibits that are a part of this annual report for a copy of the contract or other document. You may review a copy of the annual report at the SEC's public reference room in Washington, D.C.



**Table of Contents****I. Subsidiary Information**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosure about Market Risk**

The multinational nature of our operations and customer base expose us to a variety of risks, including the effects of changes in foreign currency exchange rates, interest rates and, to a limited extent, commodity prices. In order to attempt to reduce the impact related to these exposures, management evaluates exposures on a consolidated basis to take advantage of natural exposure netting. For a portion of the residual exposures to the different currencies, we may enter into various derivative transactions covering all or part of them. Such derivative transactions are executed in accordance with internal guidelines in areas such as counterparty exposure and hedging practices. We do not use derivative financial instruments for trading or other speculative purposes.

**Debt Structure**

The following tables provide a breakdown of our debt instruments at December 31, 2006 and 2005 which included fixed and variable interest rate obligations, detailed by currency and maturity date:

| At December 31, 2006    | 2007                           | Expected maturity date |         |         |         |            | Total <sup>(1)</sup> |
|-------------------------|--------------------------------|------------------------|---------|---------|---------|------------|----------------------|
|                         |                                | 2008                   | 2009    | 2010    | 2011    | Thereafter |                      |
|                         | (in thousands of U.S. dollars) |                        |         |         |         |            |                      |
| <b>Non-current Debt</b> |                                |                        |         |         |         |            |                      |
| Fixed rate              |                                | 2,134                  | 1,425   | 1,384   | 1,314   | 13,633     | 19,890               |
| Floating rate           |                                | 802,363                | 924,044 | 568,339 | 506,379 | 36,031     | 2,837,156            |
| <b>Current Debt</b>     |                                |                        |         |         |         |            |                      |
| Fixed rate              | 222,610                        |                        |         |         |         |            | 222,610              |
| Floating rate           | 571,587                        |                        |         |         |         |            | 571,587              |
|                         | 794,197                        | 804,497                | 925,469 | 569,723 | 507,693 | 49,664     | 3,651,243            |

| At December 31, 2005    | 2006                           | Expected maturity date |         |         |        | Thereafter | Total <sup>(1)</sup> |
|-------------------------|--------------------------------|------------------------|---------|---------|--------|------------|----------------------|
|                         |                                | 2007                   | 2008    | 2009    | 2010   |            |                      |
|                         | (in thousands of U.S. dollars) |                        |         |         |        |            |                      |
| <b>Non-current Debt</b> |                                |                        |         |         |        |            |                      |
| Fixed rate              |                                | 5,235                  | 7,043   | 6,638   | 6,796  | 20,398     | 46,110               |
| Floating rate           |                                | 151,286                | 201,635 | 153,444 | 81,725 | 43,912     | 632,002              |
| <b>Current Debt</b>     |                                |                        |         |         |        |            |                      |
| Fixed rate              | 112,064                        |                        |         |         |        |            | 112,064              |
| Floating rate           | 220,116                        |                        |         |         |        |            | 220,116              |
|                         | 332,180                        | 156,521                | 208,678 | 160,082 | 88,521 | 64,310     | 1,010,292            |

(1) As most borrowings are based on floating rates that approximate market rates, or contractual repricing occurs every 3 to 6 months, the fair value of the borrowings approximates its carrying amount and is not disclosed separately.

The average interest rates shown below were calculated using the rates set for each instrument in its corresponding currency and weighted using the dollar-equivalent outstanding principal amount of said instruments at December 31, 2006 and 2005. These rates reflect the upward trend in the reference rates.

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|                            | 2006  | 2005  |
|----------------------------|-------|-------|
| Bank borrowings            | 6.12% | 5.14% |
| Debentures and other loans | 5.50% | 4.51% |
| Finance lease liabilities  | 3.71% | 3.14% |

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Total Debt by Currency at December 31, 2006:

|                             | US\$      | MXP       | EUR     | Functional Currency<br>(in thousands of U.S. dollars) |        |        |        |        | Total |           |
|-----------------------------|-----------|-----------|---------|---|--------|--------|--------|--------|-------|-----------|
|                             |           |           |         | CAD   | VEB    | COP    | BRL    | JPY    |       | RON       |
| <b>Debt denominated in:</b> |           |           |         |   |        |        |        |        |       |           |
| US\$                        | 2,015,420 | 1,028,622 | 241,266 | 101,603   | 58,527 | 28,998 | 3,656  |        | 860   | 3,478,952 |
| EUR                         | 30        |           | 115,776 |   |        |        |        |        | 6,123 | 121,929   |
| BRL                         |           |           |         |   |        |        | 25,938 |        |       | 25,938    |
| JPY                         |           |           |         |   |        |        |        | 17,539 |       | 17,539    |
| Other                       | 5,206     |           |         | 857   | 13     | 807    |        |        | 2     | 6,885     |
|                             | 2,020,656 | 1,028,622 | 357,042 | 102,460   | 58,540 | 29,805 | 29,594 | 17,539 | 6,985 | 3,651,243 |

**Interest Rate Risk**

Fluctuations in market interest rates create a degree of risk by affecting the amount of our interest payments and the value of our fixed rate debt. Most of our long-term borrowings are at variable rates. At December 31, 2006, we had long-term variable interest rate debt of \$2,837,156 and short-term variable interest rate debt of \$571,587. These variable rate debts expose us to the risk of increased interest expense in the event of increases in interest rates.

On certain occasions, we have entered into interest rate derivative instruments in which we agree to exchange with the counterparty, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional amount.

*Interest Rate Swaps*

At December 31, 2006 and 2005, we had variable interest rate swap arrangements according to the following schedule:

| At December 31, 2006        | Total<br>(in thousands of U.S. dollars) | Fair<br>Value |
|-----------------------------|---|---------------|
| <b>Variable to fixed</b>    |   |               |
| Contract Amount (EUR)       | 16,102                                  | (232)         |
| Average pay rate            | 5.17%                                   |               |
| Average receive rate        | Euribor 6M                              |               |
| <b>At December 31, 2005</b> |   |               |
| <b>Variable to fixed</b>    |   |               |
| Contract Amount (EUR)       | 28,736                                  | (921)         |
| Average pay rate            | 4.92%                                   |               |
| Average receive rate        | Euribor 6M                              |               |
| Contract Amount (US\$)      | 100,000                                 | 2,228         |
| Average pay rate            | 3.96%                                   |               |
| Average receive rate        | Libor 3M                                |               |

**Table of Contents***Interest Rate Collars*

At December 31, 2006 and 2005 we had variable interest rate collar agreements according to the following schedule:

| At December 31, 2006     | Total                          | Fair Value |
|--------------------------|--------------------------------|------------|
|                          | (in thousands of U.S. dollars) |            |
| <b>Variable to fixed</b> |                                |            |
| Contract Amount (US\$)   | 1,500,000                      | 712        |
| Average floor            | 4.33%                          |            |
| Average cap              | 5.40%                          |            |
| Reference rate           | Libor 6M                       |            |

| At December 31, 2005     | Total                          | Fair Value |
|--------------------------|--------------------------------|------------|
|                          | (in thousands of U.S. dollars) |            |
| <b>Variable to fixed</b> |                                |            |
| Contract Amount (US\$)   | 200,000                        | 1,413      |
| Average floor            | 3.91%                          |            |
| Average cap              | 4.29%                          |            |
| Average Step Out         | 6.00%                          |            |
| Reference rate           | Libor 3M                       |            |

In April 2006, as cash and equivalents exceeded debt, interest rate derivatives (swaps and collars) for an aggregate notional amount of \$300 million were unwound, resulting in a positive cash inflow of \$ 6.4 million.

**Foreign exchange rate risk**

We manufacture our products in a number of countries and sell them through a number of companies located throughout the world and as a result we are exposed to foreign exchange rate risk. We use forward contracts in order to neutralize the negative impact of fluctuations in the value of currencies other than the U.S. dollar. Because a number of subsidiaries have functional currencies other than the U.S. dollar, the results of hedging activities as reported in the income statement under IFRS may not fully reflect management's assessment of its foreign exchange risk hedging needs.

*Foreign Currency Derivative Contracts*

At December 31, 2006 and 2005, Tenaris was party to foreign currency forward agreements as detailed below.

| At December 31, 2006                     | 2007                           | 2008   | Total    | Fair Value |
|--|--------------------------------|--------|----------|------------|
|  | (in thousands of U.S. dollars) |        |          |            |
| <b>Forwards</b>                          |                                |        |          |            |
| US\$/Euro(Euro forward purchases)        |                                |        |          |            |
| Contract Amount                          | 6,519                          | 5,334  | 11,853   | 870        |
| Average contractual Exchange rate        | 1.2297                         | 1.2297 | 1.2297   |            |
| JPY/US\$ (Japanese forward purchases)    |                                |        |          |            |
| Contract Amount                          | 97,889                         |        | 97,889   | (1,229)    |
| Average contractual Exchange rate        | 116.5347                       |        | 116.5347 |            |
| CAD/US\$ (Canadian dollar forward sales) |                                |        |          |            |
| Contract Amount                          | (39,648)                       |        | (39,648) | 318        |
| Average contractual Exchange rate        | 1.1555                         |        | 1.1555   |            |
| ARS/US\$ (Argentine peso forward sales)  |                                |        |          |            |
| Contract Amount                          | (15,680)                       |        | (15,680) | (359)      |

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|  |          |          |       |
|--|----------|----------|-------|
| Average contractual Exchange rate      | 3.1194   | 3.1194   |       |
| KWD/US\$ (Kuwaiti Dinar forward sales) |          |          |       |
| Contract Amount                        | (73,213) | (73,213) | (370) |
| Average contractual Exchange rate      | 0.2910   | 0.2910   |       |



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| At December 31, 2005  | 2006                           | 2007   | 2008   | Total    | Fair Value |
|---|--------------------------------|--------|--------|----------|------------|
|   | (in thousands of U.S. dollars) |        |        |          |            |
| <b>Forwards</b>   |                                |        |        |          |            |
| US\$/Euro(Euro forward purchases)   |                                |        |        |          |            |
| Contract Amount   | 28,319                         | 5,840  | 4,778  | 38,937   | (1,502)    |
| Average contractual Exchange rate   | 1.2499                         | 1.2297 | 1.2297 | 1.2444   |            |
| JPY/US\$ (Japanese forward purchases)   |                                |        |        |          |            |
| Contract Amount   | 130,319                        |        |        | 130,319  | (3,579)    |
| Average contractual Exchange rate   | 113.7017                       |        |        | 113.7017 |            |
| BRL/US\$ (Brazilian real forward sales)                                       |                                |        |        |          |            |
| Contract Amount   | (6,410)                        |        |        | (6,410)  | 8          |
| Average contractual Exchange rate   | 2.3815                         |        |        | 2.3815   |            |
| ARS/US\$ (Argentine peso forward purchases)                                   |                                |        |        |          |            |
| Contract Amount   | 59,324                         |        |        | 59,324   | (2,186)    |
| Average contractual Exchange rate   | 3.0031                         |        |        | 3.0031   |            |
| KWD/US\$ (Kuwaiti Dinar forward sales)  |                                |        |        |          |            |
| Contract Amount   | (39,739)                       |        |        | (39,739) | (118)      |
| Average contractual Exchange rate   | 0.2951                         |        |        | 0.2951   |            |
| <b>Accounting for Derivative Financial Instruments and Hedging Activities</b> |                                |        |        |          |            |

Derivative financial instruments are initially recognized in the balance sheet at cost as of the trade date and subsequently remeasured at fair value. As a general rule, we recognize the full amount related to the change in fair value of derivative financial instruments under financial results in the current period.

Beginning January 1, 2006, we have adopted hedge accounting treatment, as stated in IAS 39, for certain qualifying financial instruments. These transactions are classified as cash flow hedges (mainly currency forward contracts on highly probable forecast transactions and interest rate swaps and collars). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in shareholders equity. Amounts accumulated in shareholders equity are recognized in the income statement in the same period than any offsetting losses and gains on the hedged item. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. The fair value of our derivative financial instruments (asset or liability) continues to be reflected on the Balance Sheet.

For transactions designated and qualifying for hedge accounting, we document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be effective in offsetting changes in cash flows of hedged items. At December 31, 2006, the effective portion of designated cash flow hedges, included in other reserves in shareholders equity amounted to \$2.1 million.

We do not hold or issue derivative financial instruments for speculative trading purposes.

**Concentration of credit risk**

No single customer comprised more than 10% of our net sales in 2006.

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Our credit policies related to sales of products and services are designed to identify customers with acceptable credit history, and to allow us to require the use of credit insurance, letters of credit and other instruments designed to minimize credit risk whenever deemed necessary. We maintain allowances for potential credit losses.

**Commodity Price Sensitivity**

We use commodities and raw materials that are subject to price volatility caused by supply conditions, political and economic variables and other unpredictable factors. As a consequence, we are exposed to risk resulting from fluctuations in the prices of these commodities and raw materials. Although we fix the prices of such raw materials and commodities for short-term periods, typically not in excess of one year, in general we do not hedge this risk. In the past we have occasionally used commodity derivative instruments to hedge certain fluctuations in the market prices of raw material and energy.

**Item 12. Description of Securities Other Than Equity Securities**

Not applicable.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

**Item 15. Controls and Procedures**

**Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-5(e) under the Securities Exchange Act of 1934) as of December 31, 2006. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2006, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

**Management's report on internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Tenaris's internal control over financial reporting was designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its financial statements for external purposes in accordance with International Financial Reporting Standards, including the reconciliations required under US GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements or omissions. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted its assessment of the effectiveness of Tenaris's internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management has concluded that Tenaris's internal control over financial reporting, as of December 31, 2006, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

As allowed under certain SEC guidance, management's assessment of internal control over financial reporting excludes the operations of Maverick Tube Corporation and its subsidiaries, which were acquired in a purchase business combination in October 2006. These operations constituted, prior to giving effect to the elimination in consolidation of intercompany transactions and balances, US\$ 4.257 million of total assets and US\$ 432 million of total revenues.

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Management's assessment of the effectiveness of Tenaris's internal control over financial reporting as of December 31, 2006 has been audited by Price Waterhouse & Co SRL, an independent registered public accounting firm, as stated in their report included herein. See Report of Independent Registered Public Accounting Firm .

**Changes in internal control over financial reporting**

During the period covered by this report, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16.A. Audit Committee Financial Expert**

Our board of directors has determined that the audit committee members do not meet the attributes defined in Item 16A of Form 20-F for audit committee financial experts . However, it has concluded that the membership of the audit committee as a whole has sufficient recent and relevant financial experience to properly discharge its functions. In addition, the audit committee, from time to time and as it deems necessary, engages persons that meet all of the attributes of an audit committee financial expert as consultants.

**Item 16.B. Code of Ethics**

In addition to the general code of ethics that applies to all of our employees, we have adopted a code of ethics that applies specifically to our principal executive officers, and principal financial and accounting officer and controller, as well as persons performing similar functions.

The text of our code of ethics for senior officers is posted on our web site at: [www.tenaris.com/en/Investors/corporategovernance.asp](http://www.tenaris.com/en/Investors/corporategovernance.asp).

**Item 16.C. Principal Accountant Fees and Services***Fees Paid to the Company's Principal Accountant*

In 2006 and 2005 PricewaterhouseCoopers served as the principal external auditor for the Company. Fees payable to PricewaterhouseCoopers in 2006 and 2005 are detailed below.

| <i>Thousands of U.S. dollars</i> | <b>For the year ended Dec. 31,</b> |              |
|----------------------------------|------------------------------------|--------------|
|                                  | <b>2006</b>                        | <b>2005</b>  |
| Audit Fees                       | 4,282                              | 2,325        |
| Audit-Related Fees               | 211                                | 1,037        |
| Tax Fees                         | 54                                 | 191          |
| All Other Fees                   |                                    |              |
| <b>Total</b>                     | <b>4,548</b>                       | <b>3,553</b> |

*Audit Fees*

Audit fees were paid for professional services rendered by the auditors for the audit of the consolidated financial statements and internal control over financial reporting of the Company, the statutory financial statements of the Company and its subsidiaries, and any other audit services required for US Securities and Exchange Commission or other regulatory filings.

**Table of Contents***Audit-Related Fees*

Audit-related fees are typically services that are reasonably related to the performance of the audit or review of the consolidated financial statements of the Company and the statutory financial statements of the Company and its subsidiaries and are not reported under the audit fee item above. This item includes fees for attestation services on financial information of the Company and its subsidiaries included in their annual reports that are filed with their respective regulators. This item also includes fees for advice with respect to Section 404 of the Sarbanes-Oxley Act preparedness.

*Tax Fees*

Tax fees paid for tax compliance professional services.

*All Other Fees*

In 2006 and 2005, PricewaterhouseCoopers did not perform any services other than those described above.

*Audit Committee's Pre-approval Policies and Procedures*

The Company's audit committee is responsible for, among other things, the oversight of the Company's independent auditors. The audit committee has adopted in its charter a policy of pre-approval of audit and permissible non-audit services provided by its independent auditors.

Under the policy, the audit committee makes its recommendations to the shareholders' meeting concerning the continuing appointment or termination of the Company's independent auditors. On a yearly basis, the audit committee reviews together with management and the independent auditor, the audit plan, audit related services and other non-audit services and approves the related fees. Any changes to the approved fees must be reviewed and approved by the audit committee. In addition, the audit committee delegates to its Chairman the authority to consider and approve, on behalf of the Audit Committee, additional non-audit services that were not recognized at the time of engagement, which must be reported to the other members of the audit committee at its next meeting. No services outside the scope of the audit committee's approval can be undertaken by the independent auditor.

The audit committee did not approve any fees pursuant to the *de minimis* exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X during 2006 or 2005.

**Item 16.D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

In 2006, to our knowledge, there were no purchases of any class of registered equity securities of the Company by the Company or any affiliated purchaser (as such term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934).

In 2005, to our knowledge, the following purchases of our equity securities were carried out by San Faustín, an affiliated purchaser :

| Period    | Total Number<br>of ADS Purchased | Average Price Paid  |  |
|-----------|----------------------------------|---------------------|--|
|           |                                  | Per ADS<br>(\$/ADS) | Total Number of Shares<br>Purchased as Part of Publicly<br>Announced Plan or Program |
| June 2005 | 223,900                          | \$ 76.73            |  |

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|                   |           |    |       |
|-------------------|-----------|----|-------|
| July 2005         | 12,800    | \$ | 78.42 |
| Total 2005        | 236,700   | \$ | 76.82 |
| Share Equivalents | 2,367,000 | \$ | 7.68  |

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The purchases were made through open-market transactions and are not part of a publicly announced program.

However, in the future, we may, with the approval of our shareholders, initiate a stock repurchase or similar program or engage in other transactions pursuant to which we would repurchase, directly or indirectly, the Company's ordinary shares, ADSs or both. In addition, we or our subsidiaries may enter into transactions involving purchases of derivatives or other instruments with returns linked to the Company's ordinary shares, ADSs or both. The timing and amount of repurchase transactions under any such program, or purchases of derivatives or other instruments, would depend on market conditions as well as other corporate and regulatory considerations.

**PART III**

**Item 17. Financial Statements**

We have responded to Item 18 in lieu of responding to this Item.

**Item 18. Financial Statements**

See pages F-1 through F-62 of this annual report.

**Item 19. Exhibits**

| Exhibit Number | Description  |
|----------------|--|
| 1.1            | Updated and Consolidated Articles of Association of Tenaris S.A., dated as of June 6, 2007         |
| 2.1            | Deposit Agreement entered into between Tenaris S.A. and JPMorgan Chase Bank as amended*            |
| 7.1            | Statement Explaining Calculation of Ratios   |
| 8.1            | List of Subsidiaries of Tenaris S.A.   |
| 12.1           | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 12.2           | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 13.1           | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2           | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

\* The Deposit Agreement is incorporated by reference to the Registration Statement on Form F-4, filed by Tenaris S.A. on September 18, 2002 (File No. 333-99769) and its Amendment No. 1 is incorporated by reference to the Registration Statement on Form F-6 EF, filed by Tenaris S.A. on April 10, 2006 (File No. 333-133159).

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**TENARIS S.A.**

**CONSOLIDATED**

**FINANCIAL STATEMENTS**

**For the years ended December 31, 2006, 2005 and 2004**

46a, Avenue John F. Kennedy 2nd Floor.

L 1855 Luxembourg



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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**TENARIS S.A.**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Tenaris S.A.

We have completed an integrated audit of Tenaris S.A.'s 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statement of income, of cash flows and of changes in equity present fairly, in all material respects, the financial position of Tenaris S.A. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with International Financial Reporting Standards. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Notes 33 and 34 to the consolidated financial statements.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 15, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Maverick Tube Corporation (and its subsidiaries) from its assessment of internal control over financial reporting as of December 31, 2006 because it was acquired by the Company in a purchase business combination in October 2006. We have also excluded Maverick Tube Corporation (and its subsidiaries) from our audit of internal control over financial reporting. Maverick Tube Corporation (and its subsidiaries) is a wholly-owned subsidiary whose total assets and total revenues, prior to giving effect to the elimination in consolidation of intercompany transactions and balances, amount to \$ 4,257 million and \$ 432 million, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

Buenos Aires, June 28, 2007

PRICE WATERHOUSE & CO. S.R.L.

by /s/ Daniel A. López Lado (Partner)  
Daniel A. López Lado

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**Table of Contents****CONSOLIDATED INCOME STATEMENTS**

| (all amounts in thousands of U.S. dollars, unless otherwise stated)                     | Notes         | Year ended December 31, |                  |                |
|---|---------------|-------------------------|------------------|----------------|
|   |               | 2006                    | 2005             | 2004           |
| <b>Continuing operations</b>  |               |                         |                  |                |
| Net sales   | <b>1</b>      | 7,727,745               | 6,209,791        | 3,718,193      |
| Cost of sales   | <b>2</b>      | (3,884,226)             | (3,429,365)      | (2,378,474)    |
| <b>Gross profit</b>   |               | 3,843,519               | 2,780,426        | 1,339,719      |
| Selling, general and administrative expenses  | <b>3</b>      | (1,054,806)             | (832,315)        | (661,226)      |
| Other operating income  | <b>5 (i)</b>  | 13,077                  | 12,396           | 152,591        |
| Other operating expenses  | <b>5 (ii)</b> | (9,304)                 | (14,595)         | (25,426)       |
| <b>Operating income</b>   |               | 2,792,486               | 1,945,912        | 805,658        |
| Interest income   | <b>6</b>      | 60,798                  | 23,815           | 14,236         |
| Interest expense  | <b>6</b>      | (92,576)                | (52,629)         | (46,161)       |
| Other financial results   | <b>6</b>      | 26,826                  | (79,772)         | 38,304         |
| <b>Income before equity in earnings of associated companies and income tax</b>          |               | 2,787,534               | 1,837,326        | 812,037        |
| Equity in earnings of associated companies  | <b>7</b>      | 94,667                  | 117,377          | 206,141        |
| <b>Income before income tax</b>   |               | 2,882,201               | 1,954,703        | 1,018,178      |
| Income tax  | <b>8</b>      | (869,977)               | (567,368)        | (217,226)      |
| <b>Income for continuing operations</b>   |               | <b>2,012,224</b>        | <b>1,387,335</b> | <b>800,952</b> |
| <b>Discontinued operations (see Note 30)</b>  |               |                         |                  |                |
| Income (loss) for discontinued operations   |               | 47,180                  | (3)              | 4,029          |
| <b>Income for the Year</b>  |               | <b>2,059,404</b>        | <b>1,387,332</b> | <b>804,981</b> |
| <b>Attributable to (1):</b>   |               |                         |                  |                |
| Equity holders of the Company   |               | 1,945,314               | 1,277,547        | 784,703        |
| Minority interest   |               | 114,090                 | 109,785          | 20,278         |
|   |               | <b>2,059,404</b>        | <b>1,387,332</b> | <b>804,981</b> |
| <b>Earnings per share attributable to the equity holders of the Company during year</b> |               |                         |                  |                |
| Weighted average number of ordinary shares (thousands)                                  | <b>9</b>      | 1,180,537               | 1,180,537        | 1,180,507      |
| Earnings per share (U.S. dollars per share)   | <b>9</b>      | 1.65                    | 1.08             | 0.66           |
| Earnings per ADS (U.S. dollars per ADS)   | <b>9</b>      | 3.30                    | 2.16             | 1.33           |

(1) Prior to December 31, 2004 minority interest was shown in the income statement before net income, as required by International Financial Reporting Standards ( IFRS ) in effect. For years beginning on or after January 1, 2005, International Accounting Standards ( IAS ) 1 (revised) requires that income for the year as shown on the income statement to not exclude minority interest. Earnings per share, however, continue to be calculated on the basis of net income attributable solely to the equity holders of the Company.

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****CONSOLIDATED BALANCE SHEETS**

| (all amounts in thousands of U.S. dollars)                               | Notes  | At December 31, 2006 | At December 31, 2005 |           |                  |
|--|--------|----------------------|----------------------|-----------|------------------|
| <b>ASSETS</b>  |        |                      |                      |           |                  |
| <b>Non-current assets</b>  |        |                      |                      |           |                  |
| Property, plant and equipment, net                                       | 10     | 2,939,241            | 2,230,038            |           |                  |
| Intangible assets, net   | 11     | 2,844,498            | 159,099              |           |                  |
| Investments in associated companies                                      | 12     | 422,958              | 257,234              |           |                  |
| Other investments  | 13     | 26,834               | 25,647               |           |                  |
| Deferred tax assets  | 21     | 291,641              | 194,874              |           |                  |
| Receivables  | 14     | 41,238               | 6,566,410            | 65,852    | 2,932,744        |
| <b>Current assets</b>  |        |                      |                      |           |                  |
| Inventories  | 15     | 2,372,308            | 1,376,113            |           |                  |
| Receivables and prepayments  | 16     | 272,632              | 143,282              |           |                  |
| Current tax assets   | 17     | 202,718              | 102,455              |           |                  |
| Trade receivables  | 18     | 1,625,241            | 1,324,171            |           |                  |
| Other investments  | 19     | 183,604              | 119,907              |           |                  |
| Cash and cash equivalents  | 19     | 1,372,329            | 6,028,832            | 707,356   | 3,773,284        |
| <b>Total assets</b>  |        |                      | <b>12,595,242</b>    |           | <b>6,706,028</b> |
| <b>EQUITY</b>  |        |                      |                      |           |                  |
| <b>Capital and reserves attributable to the Company's equity holders</b> |        |                      |                      |           |                  |
| Share capital  |        | 1,180,537            | 1,180,537            |           |                  |
| Legal reserves   |        | 118,054              | 118,054              |           |                  |
| Share premium  |        | 609,733              | 609,733              |           |                  |
| Currency translation adjustments   |        | 3,954                | (59,743)             |           |                  |
| Other reserves   |        | 28,757               | 2,718                |           |                  |
| Retained earnings  |        | 3,397,584            | 5,338,619            | 1,656,503 | 3,507,802        |
| <b>Minority interest</b>   |        |                      | 363,011              |           | 268,071          |
| <b>Total equity</b>  |        |                      | <b>5,701,630</b>     |           | <b>3,775,873</b> |
| <b>LIABILITIES</b>   |        |                      |                      |           |                  |
| <b>Non-current liabilities</b>   |        |                      |                      |           |                  |
| Borrowings   | 20     | 2,857,046            | 678,112              |           |                  |
| Deferred tax liabilities   | 21     | 991,945              | 353,395              |           |                  |
| Other liabilities  | 22(i)  | 186,724              | 154,378              |           |                  |
| Provisions   | 23(ii) | 92,027               | 43,964               |           |                  |
| Trade payables   |        | 366                  | 4,128,108            | 1,205     | 1,231,054        |
| <b>Current liabilities</b>   |        |                      |                      |           |                  |
| Borrowings   | 20     | 794,197              | 332,180              |           |                  |
| Current tax liabilities  |        | 565,985              | 452,534              |           |                  |
| Other liabilities  | 22(ii) | 187,701              | 138,875              |           |                  |
| Provisions   | 24(ii) | 26,645               | 36,945               |           |                  |
| Customer advances  |        | 352,717              | 113,243              |           |                  |
| Trade payables   |        | 838,259              | 2,765,504            | 625,324   | 1,699,101        |
| <b>Total liabilities</b>   |        |                      | <b>6,893,612</b>     |           | <b>2,930,155</b> |

**Total equity and liabilities**

**12,595,242**

**6,706,028**

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

| (all amounts in thousands of U.S. dollars)                    | Attributable to equity holders of the Company |                |                |                                 |                |                       |                | Minority Interest | Total |
|---|---|----------------|----------------|---------------------------------|----------------|-----------------------|----------------|-------------------|-------|
|   | Share Capital                                 | Legal Reserves | Share Premium  | Currency translation adjustment | Other Reserves | Retained Earnings (*) |                |                   |       |
| Balance at January 1, 2006                                    | 1,180,537                                     | 118,054        | 609,733        | (59,743)                        | 2,718          | 1,656,503             | 268,071        | 3,775,873         |       |
| Currency translation differences                              |   |                |                | 63,697                          |                |                       | 15,225         | 78,922            |       |
| Change in equity reserves (See section III C and Note 28 (c)) |   |                |                |                                 | 26,039         |                       |                | 26,039            |       |
| Acquisition of minority interest                              |   |                |                |                                 |                |                       | (11,181)       | (11,181)          |       |
| Dividends paid in cash  |   |                |                |                                 |                | (204,233)             | (23,194)       | (227,427)         |       |
| Income for the period   |   |                |                |                                 |                | 1,945,314             | 114,090        | 2,059,404         |       |
| <b>Balance at December 31, 2006</b>                           | <b>1,180,537</b>                              | <b>118,054</b> | <b>609,733</b> | <b>3,954</b>                    | <b>28,757</b>  | <b>3,397,584</b>      | <b>363,011</b> | <b>5,701,630</b>  |       |

(\*) The Distributable Reserve and Retained Earnings calculated according to Luxembourg Law are disclosed in Note 26. The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT D.)**

| (all amounts in thousands of U.S. dollars) | Attributable to equity holders of the Company |                |                |                             |                                 |                |                   |                   |                  |
|--|---|----------------|----------------|-----------------------------|---------------------------------|----------------|-------------------|-------------------|------------------|
|  | Share Capital                                 | Legal Reserves | Share Premium  | Other Distributable Reserve | Currency translation adjustment | Other Reserves | Retained Earnings | Minority Interest | Total            |
| Balance at January 1, 2005                 | 1,180,537                                     | 118,054        | 609,733        | 82                          | (30,020)                        |                | 617,538           | 165,271           | 2,661,195        |
| Effect of adopting IFRS 3 (see Note 1)     |   |                |                |                             |                                 |                | 110,775           |                   | 110,775          |
| Adjusted balance at January 1, 2005        | 1,180,537                                     | 118,054        | 609,733        | 82                          | (30,020)                        |                | 728,313           | 165,271           | 2,771,970        |
| Currency translation differences           |   |                |                |                             | (29,723)                        |                |                   | 7,180             | (22,543)         |
| Increase in equity reserves in Ternium     |   |                |                |                             |                                 | 2,718          |                   |                   | 2,718            |
| Acquisition of minority interest           |   |                |                |                             |                                 |                |                   | 153               | 153              |
| Dividends paid in cash                     |   |                |                | (82)                        |                                 |                | (349,357)         | (14,318)          | (363,757)        |
| Income for the period                      |   |                |                |                             |                                 |                | 1,277,547         | 109,785           | 1,387,332        |
| <b>Balance at December 31, 2005</b>        | <b>1,180,537</b>                              | <b>118,054</b> | <b>609,733</b> |                             | <b>(59,743)</b>                 | <b>2,718</b>   | <b>1,656,503</b>  | <b>268,071</b>    | <b>3,775,873</b> |

|   | Attributable to equity holders of the Company |                |                |                             |                                 |                |                   |                   |                  |
|---|---|----------------|----------------|-----------------------------|---------------------------------|----------------|-------------------|-------------------|------------------|
|   | Share Capital                                 | Legal Reserves | Share Premium  | Other Distributable Reserve | Currency translation adjustment | Other Reserves | Retained Earnings | Minority Interest | Total            |
| Balance at January 1, 2004                            | 1,180,288                                     | 118,029        | 609,269        | 96,555                      | (34,194)                        |                | (128,667)         | 119,984           | 1,961,264        |
| Currency translation differences                      |   |                |                |                             | 4,174                           |                |                   | 9,478             | 13,652           |
| Capital increase and acquisition of minority interest | 249   | 25             | 464            | 82                          |                                 |                |                   | 20,457            | 21,277           |
| Dividends paid in cash                                |   |                |                | (96,555)                    |                                 |                | (38,498)          | (4,926)           | (139,979)        |
| Income for the period                                 |   |                |                |                             |                                 |                | 784,703           | 20,278            | 804,981          |
| <b>Balance at December 31, 2004</b>                   | <b>1,180,537</b>                              | <b>118,054</b> | <b>609,733</b> | <b>82</b>                   | <b>(30,020)</b>                 |                | <b>617,538</b>    | <b>165,271</b>    | <b>2,661,195</b> |

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****CONSOLIDATED CASH FLOW STATEMENTS**

| (all amounts in thousands of U.S. dollars)                                    | Note               | Year ended December 31, |                  |                  |
|---|--------------------|-------------------------|------------------|------------------|
|   |                    | 2006                    | 2005             | 2004             |
| <b>Cash flows from operating activities</b>                                   |                    |                         |                  |                  |
| Income for the year   |                    | 2,059,404               | 1,387,332        | 804,981          |
| Adjustments for:  |                    |                         |                  |                  |
| Depreciation and amortization   | <b>10 &amp; 11</b> | 255,004                 | 214,227          | 208,119          |
| Income tax accruals less payments   | <b>29 (ii)</b>     | 56,836                  | 149,487          | 44,659           |
| Equity in earnings of associated companies                                    |                    | (94,667)                | (117,377)        | (206,037)        |
| Interest accruals less payments, net  | <b>29 (iii)</b>    | 21,909                  | 1,919            | 16,973           |
| Income from disposal of investment and others                                 |                    | (46,481)                |                  | 11,705           |
| Changes in provisions   |                    | 8,894                   | 6,497            | 11,455           |
| Proceeds from Fintecna arbitration award net of BHP settlement                |                    |                         | 66,594           | (126,126)        |
| Changes in working capital (1)  | <b>29 (i)</b>      | (469,517)               | (433,939)        | (621,187)        |
| Other, including currency translation adjustment                              |                    | 19,474                  | 20,583           | (46,254)         |
| <b>Net cash provided by operating activities</b>                              |                    | <b>1,810,856</b>        | <b>1,295,323</b> | <b>98,288</b>    |
| <b>Cash flows from investing activities</b>                                   |                    |                         |                  |                  |
| Capital expenditures  | <b>10 &amp; 11</b> | (441,472)               | (284,474)        | (183,312)        |
| Acquisitions of subsidiaries  | <b>28</b>          | (2,387,249)             | (48,292)         | (97,595)         |
| Proceeds from disposal of subsidiary  |                    | 52,995                  |                  |                  |
| Convertible loan to associated companies                                      |                    |                         | (40,358)         |                  |
| Proceeds from disposal of property, plant and equipment and intangible assets |                    | 15,347                  | 9,995            | 12,054           |
| Dividends and distributions received from associated companies                | <b>12</b>          |                         | 59,127           | 48,598           |
| Changes in restricted bank deposits   |                    | 2,027                   | 11,452           | (13,500)         |
| Reimbursement from trust funds  |                    |                         | (119,907)        |                  |
| Changes in investments in short terms securities                              |                    | (63,697)                | 119,666          | 20,359           |
| <b>Net cash used in investing activities</b>                                  |                    | <b>(2,822,049)</b>      | <b>(292,791)</b> | <b>(213,396)</b> |
| <b>Cash flows from financing activities</b>                                   |                    |                         |                  |                  |
| Dividends paid  |                    | (204,233)               | (349,439)        | (135,053)        |
| Dividends paid to minority interest in subsidiaries                           |                    | (23,194)                | (14,318)         | (31)             |
| Proceeds from borrowings  |                    | 3,033,230               | 1,222,861        | 632,095          |
| Repayments of borrowings  |                    | (1,105,098)             | (1,463,233)      | (326,453)        |
| <b>Net cash provided by (used) in financing activities</b>                    |                    | <b>1,700,705</b>        | <b>(604,129)</b> | <b>170,558</b>   |
| <b>Increase in cash and cash equivalents</b>                                  |                    | <b>689,512</b>          | <b>398,403</b>   | <b>55,450</b>    |
| <b>Movement in cash and cash equivalents</b>                                  |                    |                         |                  |                  |
| At the beginning of the period  |                    | 680,591                 | 293,824          | 238,030          |
| Effect of exchange rate changes   |                    | (5,095)                 | (11,636)         | 344              |
| Increase in cash and cash equivalents   |                    | 689,512                 | 398,403          | 55,450           |
| <b>At December 31,</b>  | <b>29 (iv)</b>     | <b>1,365,008</b>        | <b>680,591</b>   | <b>293,824</b>   |

(1) In 2004, includes \$55.1 million corresponding to the first installment paid in connection with the final settlement of BHP claim. The accompanying notes are an integral part of these consolidated financial statements.



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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**I. GENERAL INFORMATION**

Tenaris S.A. (the Company), a Luxembourg corporation (société anonyme holding), was incorporated on December 17, 2001, as a holding company in steel pipe manufacturing and distributing operations. The Company holds, either directly or indirectly, controlling interests in various subsidiaries. References in these financial statements to Tenaris refer to Tenaris S.A. and its consolidated subsidiaries. A list of the Company's subsidiaries is included in Note 32.

The Company's shares trade on the Italian Stock Exchange, the Buenos Aires Stock Exchange and the Mexican Stock Exchange; in addition, the Company's American Depositary Securities trade on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Company's Board of Directors on February 28, 2007.

**II. ACCOUNTING POLICIES**

**A Basis of presentation**

The Consolidated Financial Statements of Tenaris and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are presented in thousands of U.S. dollars ( \$ ).

Certain comparative amounts have been reclassified to conform to changes in presentation in the current year.

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain accounting estimates and assumptions that might affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet dates, and the reported amounts of revenues and expenses during the reporting years. Actual results may differ from these estimates.

**B Group accounting**

*(1) Subsidiary companies*

Subsidiary companies are entities which are controlled by Tenaris as a result of its ownership of more than 50% of the voting rights or its ability to otherwise govern an entity's financial and operating policies. Subsidiaries are consolidated from the date on which control is exercised by the Company and are no longer consolidated from the date that the Company ceases to have control.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Tenaris. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of Tenaris share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Material intercompany transactions and balances between Tenaris subsidiaries have been eliminated in consolidation. However, since the functional currency of some subsidiaries is its respective local currency, some financial gains (losses) arising from intercompany transactions are generated. These are included in the consolidated income statement under Financial results.

See Note 32 for the list of the consolidated subsidiaries.



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**B Group accounting (Cont d.)***(2) Associated companies*

Investments in associated companies are accounted for by the equity method of accounting and initially recognized at cost. Associated companies are companies in which Tenaris owns between 20% and 50% of the voting rights or over which Tenaris has significant influence, but does not have control. Unrealized results on transactions between Tenaris and its associated companies are eliminated to the extent of Tenaris interest in the associated companies. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Company. The Company's pro-rata share of earnings in associated companies is recorded in *Equity in earnings of associated companies*. The Company's pro-rata share of changes in other reserves is recognized in reserves in the Statement of Changes in Equity.

The Company's investment in Ternium S.A. ( Ternium ) has been accounted for under the equity method, as Tenaris has significant influence as defined by IAS 28, *Investments in Associates*. At December 31, 2006, Tenaris held 11.46% of Ternium's common stock. The Company's investment in Ternium is carried at incorporation cost plus proportional ownership of Ternium's earnings and other shareholders' equity accounts. Because the exchange of its holdings in Amazonia and Ylopa for shares in Ternium was considered to be a transaction between companies under common control of San Faustin N.V., Tenaris recorded its initial ownership interest in Ternium at \$229.7 million, the carrying value of the investments exchanged. This value was \$22.6 million less than Tenaris' proportional ownership of Ternium's shareholders' equity at the transaction date. As a result of this treatment, Tenaris's investment in Ternium will not reflect its proportional ownership of Ternium's net equity position. Ternium carried out an initial public offering of its shares on February 1, 2006, listing its shares on the New York Stock Exchange.

See Note 12 for a list of principal associated companies.

**C Segment information**

Until September 30, 2006 Tenaris reported under four business segments: Seamless, Welded and Other Metallic Products, Energy and Other. The acquisition of Maverick Tube Corporation and its subsidiaries ( Maverick ) on October 5, 2006, and the sale of a significant ownership in Dalmine Energie on December 1, 2006 led to a reassessment in the definition of operating segments previously used by Tenaris. Together with the reassessment, Tenaris early adopted IFRS 8 Operating Segments as from the year ended December 31, 2006.

As from these Financial Statements, Tenaris changed its segment reporting into three major business segments: Tubes, Projects and Other.

The Tubes segment includes the operations that consist in the production and selling of both seamless and welded steel tubular products mainly for energy and industrial applications.

The Projects segment includes the operations that consist in the production and selling of welded steel pipe products mainly used in the construction of major pipeline projects.

The Other segment includes the operations that consist in the production and selling of sucker rods, welded steel pipes for electric conduits, industrial equipment and raw materials, such as hot briquetted iron, or HBI, that exceed our internal requirements.

Corporate general and administrative expenses have been allocated to the Tubes segment.

Comparative amounts have been re-presented to conform to new disclosure.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**C Segment information (Continued)**

Tenaris groups its geographical information in five areas: South America, Europe, North America, Middle East and Africa, and Far East and Oceania. For purposes of reporting geographical information, net sales are attributable to geographical areas based on the customer's location; allocation of assets and capital expenditures and associated depreciation and amortization are based on the geographic location of the assets.

**D Foreign Currency Translation**

*(1) Functional currency*

IAS 21(revised) defines the functional currency as the currency of the primary economic environment in which an entity operates.

The functional currency of Tenaris S.A. is the U.S. dollar. The U.S. dollar is the currency that best reflects the economic substance of the underlying events and circumstances relevant to Tenaris global operations. Generally, the functional currency of Tenaris's subsidiaries is the respective local currency. Tenaris Argentine operations, however, which consist of Siderca S.A.I.C. ( Siderca ) and its Argentine subsidiaries, have determined their functional currency to be the U.S. dollar, based on the following considerations:

Sales are mainly negotiated, denominated and settled in U.S. dollars. If priced in a currency other than the U.S. dollar, the price considers exposure to fluctuation in the exchange rate versus the U.S. dollar;

Prices of critical raw materials and inputs are priced and settled in U.S. dollars;

The exchange rate of the currency of Argentina has long-been affected by recurring and severe economic crises;

Net financial assets and liabilities are mainly received and maintained in U.S. dollars.

In addition to Siderca, the Company's distributing subsidiaries and intermediate holding subsidiaries also use the U.S. dollar as their functional currency, reflecting the transaction environment and cash flow of these operations.

*(2) Translation of financial information in currencies other than the functional currency*

Results of operations for subsidiaries whose functional currencies are not the U.S. dollar are translated into U.S. dollars at the average exchange rates for each quarter of the year. Balance sheet positions are translated at the end-of-year exchange rates. Translation differences are recognized in equity as currency translation adjustments. In the case of a sale or other disposal of any such subsidiary, any accumulated translation difference would be recognized in income as a gain or loss from the sale.

*(3) Transactions in currencies other than the functional currency*

Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, including intercompany transactions, and from the translation of monetary assets and liabilities denominated in currencies other than the functional currency, are recorded as gains and losses from foreign exchange and included in *Financial results* in the income statement.

**E Property, plant and equipment**

Property, plant and equipment are recognized at historical acquisition or construction cost less accumulated depreciation and impairment losses. Property, Plant and Equipment acquired through acquisitions accounted for as business combinations have been valued initially at the fair market value of the assets acquired.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**E Property, plant and equipment (Cont d.)**

Major overhaul and rebuilding expenditures are capitalized as property, plant and equipment only when the investment enhances the condition of assets beyond its original condition. The carrying amount of the replaced part is derecognized.

Ordinary maintenance expenses on manufacturing properties are recorded as cost of products sold in the year in which they are incurred.

Borrowing costs that are attributable to the acquisition or construction of certain capital assets are capitalized as part of the cost of the asset, in accordance with *IAS 23, Borrowing Costs*. Capital assets for which borrowing costs may be capitalized are those that require a substantial period of time to prepare for their intended use.

Depreciation is calculated using the straight-line method to depreciate the cost of each asset to its residual value over its estimated useful life, as follows:

|   |             |
|---|-------------|
| Buildings and improvements                            | 30-50 years |
| Plant and production equipment                        | 10-20 years |
| Vehicles, furniture and fixtures, and other equipment | 4-10 years  |

The residual values and useful lives of significant plant and equipment are reviewed, and adjusted if appropriate, at each year-end date. Any charges from such reviews are included in *Cost of sales* in the income statement.

Management's reestimation of assets useful lives, performed in accordance with IAS 16, did not materially affect depreciation expenses for 2006.

Tenaris depreciates each significant part of an item of property, plant and equipment for its different production facilities that (i) can be properly identified as an independent component with a cost that is significant in relation to the total cost of the item, and (ii) has a useful operating life that is different from another significant part of that same item of property, plant and equipment.

Gains and losses on disposals are determined by comparing net proceeds with the carrying amount of assets. These are included in *Other operating income* or *Other operating expenses* in the income statement.

**F Intangible assets***(1) Goodwill*

Goodwill represents the excess of the acquisition cost over the fair value of the Tenaris share of net assets acquired as part of business combinations. In accordance with IFRS 3, beginning January 1, 2005, goodwill is considered to have an indefinite life and is not amortized, but is subject to annual impairment testing. In the event of impairment, impairment losses on goodwill are not reversed. No impairment losses related to goodwill were recorded by Tenaris during the three years covered by these financial statements. Goodwill is included in *Intangible assets, net* on the balance sheet.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units expected to benefit from the business combination which generated the goodwill being tested.

Negative goodwill represents an excess of the fair value of identifiable net assets acquired in a business combination over the cost of the acquisition. IFRS 3 requires negative goodwill to be recognized immediately as a gain in the income statement.



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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**F Intangible assets (Cont d.)**

*(1) Goodwill (Cont d.)*

During 2004 International Financial Reporting Standard (IFRS) 3, *Business Combinations* was issued, which was applied by Tenaris for all business combinations that occurred after March 31, 2004.

As per this standard, prior to January 1, 2005 goodwill was amortized on a straight line basis over its estimated useful life, not to exceed 15 years, and tested for impairment at each balance sheet date in the event indicators of impairment were present. As required by IFRS 3, Tenaris ceased amortization of goodwill for periods beginning on or after January 1, 2005. In addition, accumulated amortization as of December 31, 2004 has been netted against the cost of the goodwill. For years ending on or after December 31, 2005 goodwill is required to be tested annually for impairment, as well as when there are indicators of impairment. Amortization of goodwill expense included in the year ended December 31, 2004 amounted to \$9.4 million.

Upon the adoption of IFRS 3, which must be adopted together with the revised IAS 38, *Intangible Assets*, and IAS 36, *Impairment of Assets*, previously accumulated negative goodwill is required to be derecognized through an adjustment to retained earnings. The derecognition of negative goodwill in this manner resulted in an increase of \$110.8 million in the opening balance of the Company's equity at January 1, 2005. Amortization of negative goodwill in income amounted to \$9.0 million in the year ended December 31, 2004.

*(2) Information systems projects*

Costs associated with developing or maintaining computer software programs are generally recognized as an expense as incurred. However, costs directly related to the development, acquisition and implementation of information systems are recognized as intangible assets if it is probable they have economic benefits exceeding one year.

Information systems projects recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 3 years. Amortization charges are classified as *Selling, general and administrative expenses* in the income statement.

*(3) Licenses, patent and trademarks*

Expenditures on acquired patents, trademarks, technology transfer and licenses are capitalized and amortized using the straight-line method over their estimated useful lives, not exceeding a period of 3 years.

*(4) Research and development*

Research expenditures as well as development costs that do not fulfill the criteria for capitalization are recorded as cost of sales in the income statement as incurred. Research and development expenditures included in cost of sales for the years 2006, 2005 and 2004 totaled \$46.9 million, \$34.7 million and \$26.3 million, respectively.

*(5) Customer relationships intangible asset acquired in a business combination*

In accordance with IFRS 3 and IAS 38, Tenaris has recognized the value of customer relationships separately from goodwill attributable to the acquisition of Maverick, as further disclosed in Note 28.

Customer relationships are amortized over a useful average life of approximately 14 years.



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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**G Impairment of non financial assets**

In accordance with IFRS 3 (Business Combinations) and the related revised versions of IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), long-lived assets, including identifiable intangible assets and goodwill are regularly reviewed for impairment.

Intangible assets with indefinite life, including goodwill, are subject to at least an annual impairment test for possible impairment whereas, the remaining long lived assets are tested whenever events or changes in circumstances indicate that the balance sheet carrying amount of the asset may not be recoverable.

To carry out these tests, assets are grouped into cash generating units (CGUs). The value in use of these units is determined on the basis of the present value of net future cash flows which will be generated by the assets tested. Cash flows are discounted at discount rates that reflects specific country and currency risks.

**H Other Investments**

Other investments consist primarily of investments in financial debt instruments.

All of Tenaris investments are classified as financial assets at fair value through profit or loss. As explained in section IV, Tenaris applied the transition provisions of IAS 39 and designated as financial assets carried at fair value through profit or loss the investments that were previously recognized as available-for-sale.

Purchases and sales of financial investments are recognized as of the trade date, which is the date that Tenaris commits to purchase or sell the investment, and which is not significantly different from the actual settlement date. The change in fair value of financial investments designated as held at fair value through profit or loss is charged to *Financial results* in the income statement.

Income from financial investments is recognized in *Financial results* in the income statement. Interest receivable on investments in debt securities is calculated using the effective interest method.

The fair values of quoted investments are based on current mid prices. If the market for a financial investment is not active or the securities are not listed, Tenaris estimates fair value by using standard valuation techniques.

**I Inventories**

Inventories are stated at the lower of cost (calculated principally on the first-in-first-out FIFO method) and net realizable value. The cost of finished goods and goods in process is comprised of raw materials, direct labor, other direct costs and related production overhead costs. Tenaris estimates net realizable value of inventories item by item or by grouping, where applicable, similar or related items. Net realizable value is the estimated selling price in the ordinary course of business, less any estimated costs of completion and selling expenses. Goods in transit at year end are valued at supplier invoice cost.

Tenaris establishes an allowance for obsolete or slow-moving inventory related to finished goods, supplies and spare parts. For slow moving or obsolete finished products, an allowance is established for based on management's analysis of product aging. An allowance for slow-moving inventory of supplies and spare parts is established based on management's analysis of such items to be used as intended and the consideration of potential obsolescence due to technological changes.

**J Trade receivables**

Trade receivables are recognized initially at fair value, generally original invoice amount. Tenaris analyzes its trade accounts receivable on a regular basis and, when aware of a specific client's difficulty or inability to meet its obligations to Tenaris, impairs any amounts due by means of

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a charge to an allowance for doubtful accounts receivable. Additionally, this allowance is adjusted periodically based on the aging of receivables.

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**K Cash and cash equivalents**

Cash and cash equivalents are comprised of cash in banks, short-term money market funds and highly liquid short-term securities with a maturity of less than 90 days at the date of purchase. Assets recorded in cash and cash equivalents are carried at fair market value, or at historical cost which approximates fair market value.

For the purposes of the cash flow statement, cash and cash equivalents is comprised of cash, bank accounts and short-term highly liquid investments and overdrafts.

On the balance sheet, bank overdrafts are included in borrowings in current liabilities.

**L Shareholders Equity**

*(1) Basis of presentation*

The consolidated statement of changes in equity includes:

The value of share capital, legal reserve, share premium and other distributable reserve calculated in accordance with Luxembourg Law;

The currency translation adjustments, retained earnings, minority interest and other reserves calculated in accordance with IFRS;

*(2) Share Capital*

Ordinary shares are classified as equity.

*(3) Dividends Paid by Tenaris to Shareholders*

Dividends payable are recorded in Tenaris financial statements in the year in which they are approved by the Company's shareholders, or when interim dividends are approved by the Board of Directors in accordance with the by-laws of the Company.

Dividends may be paid by Tenaris to the extent that it has distributable retained earnings, calculated in accordance with Luxembourg law. As a result, retained earnings included in the consolidated financial statements may not be wholly distributable. See Note 26.

**M Borrowings**

Borrowings are recognized initially for an amount equal to the proceeds received net of transaction costs. In subsequent years, borrowings are stated at amortized cost.

**N Income Taxes Current and Deferred**

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Under present Luxembourg law, the Company is not subject to income tax, withholding tax on dividends paid to shareholders or capital gains tax payable in Luxembourg as long as the Company maintains its status as a 1929 Holding Billiardaire Company . Following a previously announced decision by the European Commission, the Grand-Duchy of Luxembourg has terminated its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly listed companies -including Tenaris- will be entitled to continue benefiting from their current tax regime until December 31, 2010.

The current income tax charge is calculated on the basis of the tax laws in effect in the countries where the Company 's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions when appropriate.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**N Income Taxes Current and Deferred (Cont.)**

Deferred income taxes are calculated applying the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from fair value adjustments of assets acquired in business combinations, the effect of currency translation on fixed assets, depreciation on property, plant and equipment, valuation of inventories and provisions for pensions. Deferred tax assets are also recognized for net operating loss carry-forwards. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the time period when the asset is realized or the liability is expected to be settled, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognized to the extent it is probable that future taxable income will be available to utilize those recognized deferred tax assets against such income.

**O Employee-related liabilities***(a) Employee severance indemnity*

Employee severance indemnity costs are assessed annually using the projected unit credit method. Employee severance indemnity obligations are measured at the present value of the estimated future cash outflows, based on actuarial calculations provided by independent advisors and in accordance with current legislation and labor contracts in effect in each respective country. The cost of this obligation is charged to the income statement over the expected service lives of employees.

This provision is primarily related to the liability accrued for employees at Tenaris Italian and Mexican subsidiaries.

*(b) Defined benefit pension obligations*

Certain officers of Tenaris are covered by defined benefit employee retirement plans designed to provide post-retirement, termination and other benefits.

Post-retirement costs are assessed using the projected unit credit method. Post-retirement obligations are measured at the present value of the estimated future cash outflows, based on actuarial calculations provided by independent advisors.

Benefits provided under one of Tenaris's plans are provided in U.S. dollars, and are calculated based on seven-year salary averages. Tenaris accumulates assets for the payment of benefits expected to be disbursed by this plan in the form of investments that are subject to time limitations for redemption. These investments are neither part of a specific pension plan nor are they segregated from Tenaris' other assets. As a result, this plan is considered to be unfunded under IFRS definitions.

In its newly acquired Canadian subsidiary (Prudential Steel Ltd.) Tenaris sponsors funded and unfunded non-contributory defined benefit pension plans that cover substantially all of the employees of its company. The plans provide defined benefits based on years of service and, in the case of salaried employees, final average salary. In addition Tenaris provides an unfunded non-contributory post-employment benefits plan to retirees from salaried employment.

Certain other officers and former employees of one specific Tenaris subsidiary are covered by a separate plan defined as funded under IFRS definitions.

All of Tenaris' plans recognize actuarial gains and losses over the average remaining service lives of employees.



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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**O Employee-related liabilities (Cont.)**

*(c) Other compensation obligations*

Employee entitlements to annual leave and long-service leave are accrued as earned.

Other length of service based compensation to employees in the event of dismissal or death is charged to income in the year in which it becomes payable.

**P Employee statutory profit sharing**

Under Mexican law, the Company's Mexican subsidiaries are required to pay their employees an annual benefit calculated on a basis similar to that used for local income tax purposes. Employee statutory profit sharing is calculated using the liability method, and is recorded in *Current other liabilities* and *Non-current other liabilities* on the balance sheet. Because Mexican employee statutory profit sharing is determined on a basis similar to that used for determining local income taxes, Tenaris accounts for temporary differences arising between the statutory calculation and reported expense as determined under IFRS in a manner similar to the calculation of deferred income tax.

**Q Provisions and other liabilities**

Tenaris is subject to various claims, lawsuits and other legal proceedings, including customer claims, in which a third party is seeking payment for alleged damages, reimbursement for losses or indemnity. Tenaris' potential liability with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Management periodically reviews the status of each significant matter and assesses potential financial exposure. If a potential loss from a claim or proceeding is considered probable and the amount can be reasonably estimated, a liability is recorded. Accruals for loss contingencies reflect a reasonable estimate of the losses to be incurred based on information available to management as of the date of preparation of the financial statements, and take into consideration Tenaris' litigation and settlement strategies. These estimates are primarily constructed with the assistance of legal counsel. As the scope of liabilities become better defined, there may be changes in the estimates of future costs which could have a material adverse effect on its results of operations, financial condition and net worth.

If Tenaris expects to be reimbursed for an accrued expense, as would be the case for an expense or loss covered under an insurance contract, and reimbursement is considered virtually certain, the expected reimbursement is recognized as a receivable.

**R Revenue recognition**

Tenaris' products and services are sold based upon purchase orders, contracts or upon other persuasive evidence of an arrangement with customers, including that the sales price is known or determinable. Sales are recognized as revenue upon delivery and when collection is reasonably assured. Delivery is defined by the transfer of risk provision of sales contracts and may include delivery to a storage facility located at one of the Company's subsidiaries.

Other revenues earned by Tenaris are recognized on the following bases:

Interest income: on the effective yield basis.

Dividend income from investments in other companies: when Tenaris' right to collect is established.

**S Cost of sales and sales expenses**

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Cost of sales and sales expenses are recognized in the income statement on the accrual basis of accounting.

Commissions, freight and other selling expenses, including shipping and handling costs, are recorded in Selling, general and administrative expenses in the income statement.

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**T Earnings per share**

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the daily weighted average number of common shares outstanding during the year.

**U Derivative financial instruments**

Accounting for derivative financial instruments and hedging activities is included within the Section III, Financial Risk Management .

**III. FINANCIAL RISK MANAGEMENT**

The multinational nature of Tenaris' operations and customer base expose the company to a variety of risks, including the effects of changes in foreign currency exchange rates and interest rates. To manage the volatility related to these exposures, management evaluates exposures on a consolidated basis to take advantage of logical exposure netting. For a portion of the remaining exposures, the Company or its subsidiaries may enter into various derivative transactions in order to manage potential adverse impacts on the Tenaris' financial performance. Such derivative transactions are executed in accordance with internal policies in areas such as counterparty exposure and hedging practices.

**A. Financial Risk Factors**

*(i) Foreign exchange rate risk management*

Tenaris manufactures and sells its products in a number of countries throughout the world and as a result is exposed to foreign exchange rate risk. The purpose of Tenaris' foreign currency hedging program is to reduce the risk caused by short-term changes in exchange rates.

Tenaris aims to neutralize the potential negative impact of currency fluctuations in the value of other currencies with respect to the dollar. Because a number of subsidiaries have functional currencies other than the U.S. dollar, the results of hedging activities as reported in accordance with IFRS may not reflect management's assessment of its foreign exchange risk hedging program.

*(ii) Interest rate risk management*

Tenaris' financing strategy is to manage interest expense using a mixture of fixed-rate and variable-rate debt. To manage this risk in a cost efficient manner, Tenaris enters into interest rate swaps in which it agrees to exchange with the counterparty, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Tenaris have entered into interest rate swaps related to long-term debt to partially hedge future interest payments, as well as to convert borrowings from floating to fixed rates.

*(iii) Concentration of credit risk*

No single customer comprised more than 10% of our net sales in 2006.

Tenaris' credit policies related to sales of products and services are designed to identify customers with acceptable credit history, and to allow Tenaris to require the use of credit insurance, letters of credit and other instruments designed to minimize credit risk whenever deemed necessary. Tenaris maintains allowances for impairment for potential credit losses.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. Tenaris has established strict counterparty credit guidelines and normally enter into transactions with investment grade financial institutions.

*(iv) Liquidity risk*

Management maintains sufficient cash and marketable securities or credit facilities to finance normal operations. Tenaris also has committed credit facilities and has access to the market for adequately backup its short-term working capital needs.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**B. Fair value estimation**

For purposes of estimating the fair value of financial assets and liabilities with maturities of less than one year, the market value was considered.

Most borrowings are comprised of variable rate debt or fixed rate debt that in general terms are comparable to market rate. As a result, the fair value of Tenaris' borrowings approximates its current amounts and is not disclosed separately.

**C. Accounting for Derivative Financial Instruments and Hedging Activities**

Derivative financial instruments are initially recognized in the balance sheet at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. As a general rule, Tenaris recognizes the full amount related to the change in fair value of derivative financial instruments in *Financial results* in the income for the year.

Beginning January 1, 2006, Tenaris has adopted hedge accounting treatment, as established by IAS 39, for certain qualifying derivative financial instruments. These transactions are classified as cash flow hedges (mainly currency forward contracts on highly probable forecast transactions and interest rate swaps and collars). The effective portion of the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. Amounts accumulated in equity are recognized in the income statement in the same period than any offsetting losses and gains on the hedged item. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. The fair value of Tenaris derivative financial instruments (asset or liability) continues to be reflected on the Balance Sheet.

For transactions designated and qualifying for hedge accounting, Tenaris documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. At December 31, 2006, the effective portion of designated cash flow hedges amounts to \$2.1 million and is included in Other Reserves in equity.

Tenaris does not hold or issue derivative financial instruments for speculative trading purposes.

**IV. IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS**

**Standards early adopted by Tenaris**

IFRS 8 Operating Segments replaces IAS 14 and requires an entity to report financial and descriptive information about its reportable segments (as aggregations of operating segments). Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments also giving certain descriptive information. See Section II C.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**Interpretations and amendments to published standards effective in 2006**

(a) IAS 19, Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures (Amendment)

On December 16, 2004, the International Accounting Standards Board ( IASB ) issued International Accounting Standard No. 19, Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures (Amendment) ( IAS 19 ). IAS 19 gives entities the option to recognize actuarial gains and losses in full during the period in which they occur, outside of profit and loss, in the statement of recognized income and expense. Previously, entities were only permitted to recognize actuarial gains and losses in profit and loss either (1) in the period in which they occur or (2) spread over the service life of employees. As Tenaris does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, this amendment did not impact in the Company Financial Statements.

(b) IAS 21, The Effects of Changes in Foreign Exchange Rates Net Investment in Foreign Operations

In December 2005, the IASB issued an amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates Net Investment in Foreign Operations. The amendment clarifies the requirements of IAS 21 regarding an entity's investment in foreign operations. As per the amendment, the entity that has a monetary item that is, in substance, a part of the entity's net investment in that foreign operation may be any subsidiary of the group. Exchange differences on such monetary items are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity. The application of this amendment from January 1, 2006 did not have a material impact in the Company's financial statements.

Management assessed the relevance of other new standards, amendments or interpretations and concluded that they are not relevant to Tenaris.

**Interpretations and amendments to published standards that are not yet effective and have not been early adopted**

(a) IFRS 7, *Financial Instruments: Disclosure, and a complementary amendment to IAS 1, presentation of financial statements* Capital disclosure

IFRS 7 introduces new disclosures about financial instruments such as qualitative and quantitative information about exposures to risks arising from financial instruments. Tenaris will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning on January 1, 2007.

(b) IFRIC 9, Reassessment of Embedded Derivatives

IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a significant change in the terms of the contract.

(c) IFRIC 10, Interim Financial Reporting and Impairment

Under this interpretation, no reversal to an impairment loss recognized in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost is allowed.

Tenaris will apply IFRIC 10 from January 1, 2007, but it is not expected to have any impact on the Company's financial statements.

Management assessed the relevance of other new standards, amendments or interpretations not yet effective and concluded that they are not relevant to Tenaris.





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**V. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(In the notes all amount are shown in thousands of U.S. dollars, unless otherwise stated)

**1 Segment information****Reportable operating segments**

| (all amounts in thousands of U.S. dollars)   | Tubes            | Projects       | Other          | Unallocated | Total Continuing operations | Total Discontinued operations (*) |
|--|------------------|----------------|----------------|-------------|-----------------------------|-----------------------------------|
| <b>Year ended December 31, 2006</b>  |                  |                |                |             |                             |                                   |
| Net sales  | 6,824,338        | 453,536        | 449,871        |             | 7,727,745                   | 503,051                           |
| Cost of sales  | (3,231,568)      | (326,402)      | (326,256)      |             | (3,884,226)                 | (486,312)                         |
| <b>Gross profit</b>  | <b>3,592,770</b> | <b>127,134</b> | <b>123,615</b> |             | <b>3,843,519</b>            | <b>16,739</b>                     |
| Selling, general and administrative expenses   | (923,328)        | (71,546)       | (59,932)       |             | (1,054,806)                 | (8,025)                           |
| Other operating income (expenses), net   | 1,022            | 749            | 2,002          |             | 3,773                       | 2,469                             |
| <b>Operating income</b>  | <b>2,670,464</b> | <b>56,337</b>  | <b>65,685</b>  |             | <b>2,792,486</b>            | <b>11,183</b>                     |
| Segment assets   | 10,807,344       | 803,060        | 561,879        | 422,959     | 12,595,242                  |                                   |
| Segment liabilities  | 6,242,969        | 448,493        | 202,150        |             | 6,893,612                   |                                   |
| Capital expenditures   | 408,965          | 23,979         | 7,507          |             | 440,451                     | 1,021                             |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 3,178,735        |                |                |             | 3,178,735                   |                                   |
| Depreciation and amortization  | 220,368          | 19,345         | 13,394         |             | 253,107                     | 1,897                             |
| <b>Year ended December 31, 2005</b>  |                  |                |                |             |                             |                                   |
| Net sales  | 5,123,975        | 789,989        | 295,827        |             | 6,209,791                   | 526,406                           |
| Cost of sales  | (2,720,719)      | (520,404)      | (188,242)      |             | (3,429,365)                 | (513,393)                         |
| <b>Gross profit</b>  | <b>2,403,256</b> | <b>269,585</b> | <b>107,585</b> |             | <b>2,780,426</b>            | <b>13,013</b>                     |
| Selling, general and administrative expenses   | (699,817)        | (88,422)       | (44,076)       |             | (832,315)                   | (10,259)                          |
| Other operating income (expenses), net   | (1,908)          | (1,587)        | 1,296          |             | (2,199)                     | (220)                             |
| <b>Operating income</b>  | <b>1,701,531</b> | <b>179,576</b> | <b>64,805</b>  |             | <b>1,945,912</b>            | <b>2,534</b>                      |
| Segment assets   | 5,404,745        | 540,187        | 356,843        | 257,234     | 6,559,009                   | 147,019                           |
| Segment liabilities  | 2,414,899        | 212,917        | 178,049        |             | 2,805,865                   | 124,290                           |
| Capital expenditures   | 252,974          | 25,101         | 5,020          |             | 283,095                     | 1,379                             |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 67,980           |                |                |             | 67,980                      |                                   |
| Depreciation and amortization  | 182,478          | 15,545         | 13,690         |             | 211,713                     | 2,514                             |
| <b>Year ended December 31, 2004</b>  |                  |                |                |             |                             |                                   |
| Net sales  | 3,273,267        | 280,082        | 164,844        |             | 3,718,193                   | 417,870                           |
| Cost of sales  | (2,075,151)      | (184,767)      | (118,556)      |             | (2,378,474)                 | (398,462)                         |
| <b>Gross profit</b>  | <b>1,198,116</b> | <b>95,315</b>  | <b>46,288</b>  |             | <b>1,339,719</b>            | <b>19,408</b>                     |
| Selling, general and administrative expenses   | (571,871)        | (58,317)       | (31,038)       |             | (661,226)                   | (11,223)                          |

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|  |           |         |         |        |           |         |
|--|-----------|---------|---------|--------|-----------|---------|
| Other operating income (expenses), net   | 124,764   | (2)     | 2,403   |        | 127,165   | (325)   |
| Operating income   | 751,009   | 36,996  | 17,653  |        | 805,658   | 7,860   |
| Segment assets   | 4,626,329 | 508,841 | 305,821 | 99,451 | 5,540,442 | 121,846 |
| Segment liabilities  | 2,435,933 | 309,470 | 133,644 |        | 2,879,047 | 122,046 |
| Capital expenditures   | 149,326   | 23,276  | 9,272   |        | 181,874   | 1,438   |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 191,097   |         |         |        | 191,097   |         |
| Depreciation and amortization  | 185,118   | 12,082  | 7,365   |        | 204,565   | 3,554   |

Transactions between segments, which were eliminated in consolidation, include sales of scrap and pipe protectors from the Others segment to tubes units for \$88,118, \$41,163 and \$36,765 in 2006, 2005 and 2004, respectively.

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**1 Segment information (Cont d.)****Geographical information**

| (all amounts in thousands of U.S. dollars)   | Far              |                  |           |                            |                   | Unallocated | Total<br>Continuing<br>operations | Total<br>Discontinued<br>operations (*) |
|--|------------------|------------------|-----------|----------------------------|-------------------|-------------|-----------------------------------|---|
|  | North<br>America | South<br>America | Europe    | Middle<br>East &<br>Africa | East &<br>Oceania |             |                                   |   |
| <b>Year ended December 31, 2006</b>  |                  |                  |           |                            |                   |             |                                   |   |
| Net sales  | 2,182,936        | 1,520,210        | 1,398,458 | 1,957,707                  | 668,434           |             | 7,727,745                         | 503,051                                 |
| Total assets   | 6,334,226        | 2,780,977        | 2,045,856 | 623,572                    | 387,652           | 422,959     | 12,595,242                        |   |
| Trade receivables  | 425,734          | 189,779          | 392,060   | 519,022                    | 98,646            |             | 1,625,241                         |   |
| Property, plant and equipment, net   | 1,209,277        | 864,425          | 787,058   | 2,813                      | 75,668            |             | 2,939,241                         |   |
| Capital expenditures   | 121,976          | 145,956          | 137,608   | 367                        | 34,544            |             | 440,451                           | 1,021                                   |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 3,096,445        | 73,426           | 8,864     |                            |                   |             | 3,178,735                         |   |
| Depreciation and amortization  | 98,967           | 90,224           | 57,037    | 780                        | 6,099             |             | 253,107                           | 1,897                                   |
| <b>Year ended December 31, 2005</b>  |                  |                  |           |                            |                   |             |                                   |   |
| Net sales  | 1,708,126        | 1,823,735        | 1,043,801 | 959,020                    | 675,109           |             | 6,209,791                         | 526,406                                 |
| Total assets   | 2,213,075        | 2,089,419        | 1,355,615 | 289,363                    | 354,303           | 257,234     | 6,559,009                         | 147,019                                 |
| Trade receivables  | 310,153          | 358,859          | 147,983   | 255,379                    | 134,402           |             | 1,206,776                         | 117,395                                 |
| Property, plant and equipment, net   | 787,937          | 740,391          | 643,656   | 3,583                      | 49,235            |             | 2,224,802                         | 5,236                                   |
| Capital expenditures   | 64,274           | 109,180          | 103,286   | 1,498                      | 4,857             |             | 283,095                           | 1,379                                   |
| Acquisition of property, plant and equipment and intangible assets due to business combination |                  |                  | 67,980    |                            |                   |             | 67,980                            |   |
| Depreciation and amortization  | 49,038           | 87,430           | 68,608    | 404                        | 6,233             |             | 211,713                           | 2,514                                   |
| <b>Year ended December 31, 2004</b>  |                  |                  |           |                            |                   |             |                                   |   |
| Net sales  | 1,140,326        | 824,800          | 818,925   | 524,874                    | 409,268           |             | 3,718,193                         | 417,870                                 |
| Total assets   | 1,596,464        | 1,771,318        | 1,686,529 | 109,266                    | 277,414           | 99,451      | 5,540,442                         | 121,846                                 |
| Trade receivables  | 295,896          | 143,731          | 254,642   | 81,369                     | 69,307            |             | 844,945                           | 91,986                                  |
| Property, plant and equipment, net   | 737,507          | 728,468          | 629,759   | 4,645                      | 58,042            |             | 2,158,421                         | 6,180                                   |
| Capital expenditures   | 64,845           | 83,003           | 28,256    | 2,257                      | 3,513             |             | 181,874                           | 1,438                                   |
| Acquisition of property, plant and equipment and intangible assets due to business combination |                  | 121,145          | 69,952    |                            |                   |             | 191,097                           |   |
| Depreciation and amortization  | 41,986           | 89,934           | 64,878    | 35                         | 7,732             |             | 204,565                           | 3,554                                   |

There are no revenues from external customers attributable to the Company's country of incorporation (Luxembourg). The South American segment comprises principally Argentina, Brazil and Venezuela. The European segment comprises principally France, Germany, Italy, Norway, Romania and the United Kingdom. The North American segment comprises Canada, Mexico and USA. The Middle East and Africa segment comprises principally Egypt, Nigeria, Saudi Arabia and United Arab Emirates. The Far East and Oceania segment comprises principally China, Indonesia, Japan and South Korea.

(\*) Corresponds to Dalmine Energie operations.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**2 Cost of sales**

| (all amounts in thousands of U.S. dollars)         | Year ended December 31, |                    |                    |
|--|-------------------------|--------------------|--------------------|
|  | 2006                    | 2005               | 2004               |
| <b>Inventories at the beginning of the year</b>    | <b>1,376,113</b>        | <b>1,269,470</b>   | <b>831,879</b>     |
| <b>Plus: Charges of the year</b>                   |                         |                    |                    |
| Raw materials, energy, consumables and other       | 3,514,396               | 2,954,580          | 2,244,073          |
| Increase in inventory due to business combinations | 592,341                 | 5,500              | 25,278             |
| Services and fees                                  | 384,223                 | 324,799            | 259,025            |
| Labor cost   | 512,854                 | 420,714            | 369,681            |
| Depreciation of property, plant and equipment      | 187,564                 | 182,696            | 174,880            |
| Amortization of intangible assets                  | 2,738                   | 5,025              | 12,748             |
| Maintenance expenses                               | 120,664                 | 99,171             | 82,323             |
| Provisions for contingencies                       | (87)                    | 200                | 994                |
| Allowance for obsolescence                         | (8,006)                 | 20,303             | 23,167             |
| Taxes  | 4,568                   | 3,170              | 3,088              |
| Other  | 55,478                  | 33,243             | 19,270             |
|  | <b>5,366,733</b>        | <b>4,049,401</b>   | <b>3,214,527</b>   |
| Less: Inventories at the end of the year           | <b>(2,372,308)</b>      | <b>(1,376,113)</b> | <b>(1,269,470)</b> |
|  | <b>4,370,538</b>        | <b>3,942,758</b>   | <b>2,776,936</b>   |
| From Discontinued operations                       | (486,312)               | (513,393)          | (398,462)          |
|  | <b>3,884,226</b>        | <b>3,429,365</b>   | <b>2,378,474</b>   |

**3 Selling, general and administrative expense**

| (all amounts in thousands of U.S. dollars)      | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2006                    | 2005           | 2004           |
| Services and fees                               | 133,304                 | 122,953        | 121,269        |
| Labor cost                                      | 279,768                 | 214,216        | 157,114        |
| Depreciation of property, plant and equipment   | 9,926                   | 10,319         | 10,218         |
| Amortization of intangible assets               | 54,776                  | 16,187         | 10,273         |
| Commissions, freight and other selling expenses | 361,655                 | 298,101        | 250,085        |
| Provisions for contingencies                    | 13,881                  | 14,855         | 12,142         |
| Allowances for doubtful accounts                | 1,199                   | 7,069          | 7,187          |
| Taxes   | 122,789                 | 93,782         | 59,256         |
| Other   | 85,533                  | 65,092         | 44,905         |
|   | 1,062,831               | 842,574        | 672,449        |
| From Discontinued operations                    | (8,025)                 | (10,259)       | (11,223)       |
|   | <b>1,054,806</b>        | <b>832,315</b> | <b>661,226</b> |

**4 Labor costs (included in Cost of sales and Selling, general and administrative expenses)**

| (all amounts in thousands of U.S. dollars) | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2006                    | 2005           | 2004           |
| Wages, salaries and social security costs  | 778,573                 | 622,523        | 509,572        |
| Employees' severance indemnity             | 11,588                  | 10,617         | 12,907         |
| Pension benefits - defined benefit plans   | 2,461                   | 1,790          | 4,316          |
|  | 792,622                 | 634,930        | 526,795        |
| From Discontinued operations               | (4,898)                 | (5,356)        | (3,673)        |
|  | <b>787,724</b>          | <b>629,574</b> | <b>523,122</b> |

At the year-end, the number of employees was 21,751 in 2006, 17,693 in 2005 and 16,447 in 2004.

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**5 Other operating items**

| (all amounts in thousands of U.S. dollars) |   | Year ended December 31, |               |                |
|--|---|-------------------------|---------------|----------------|
|  |   | 2006                    | 2005          | 2004           |
| (i)  | Other operating income  |                         |               |                |
|  | Reimbursement from insurance companies and other third parties                | 1,611                   | 1,966         | 3,165          |
|  | Net income from other sales   | 4,512                   | 5,767         | 16,063         |
|  | Net income from sale of investments   | 6,933                   |               |                |
|  | Net rents   | 2,490                   | 2,501         | 1,362          |
|  | Fintecna arbitration award, net of legal expenses, related to BHP proceedings |                         | 1,752         | 123,000        |
|  | Power plants - reimbursement from supplier                                    |                         |               | 9,001          |
|  | Other   |                         | 410           |                |
|  |   | 15,546                  | 12,396        | 152,591        |
|  | From Discontinued operations  | (2,469)                 |               |                |
|  |   | <b>13,077</b>           | <b>12,396</b> | <b>152,591</b> |
| (ii)                                       | Other operating expenses  |                         |               |                |
|  | Contributions to welfare projects and non-profits organizations               | 4,463                   | 2,532         | 2,290          |
|  | Provisions for legal claims and contingencies                                 |                         | 8,694         |                |
|  | Loss on disposal of fixed assets and material supplies                        | 1,424                   | 2,146         |                |
|  | Allowance for doubtful receivables  | (375)                   | 1,443         | 2,104          |
|  | Power plants - impairment and associated charges                              |                         |               | 18,447         |
|  | Other   | 3,792                   |               | 2,910          |
|  |   | 9,304                   | 14,815        | 25,751         |
|  | From Discontinued operations  |                         | (220)         | (325)          |
|  |   | <b>9,304</b>            | <b>14,595</b> | <b>25,426</b>  |

**6 Financial results**

| (all amounts in thousands of U.S. dollars) |   | Year ended December 31, |                  |                 |
|--|---|-------------------------|------------------|-----------------|
|  |   | 2006                    | 2005             | 2004            |
|  | Interest income                                 | 61,401                  | 24,268           | 14,247          |
|  | Interest expense                                | (93,638)                | (53,504)         | (46,930)        |
|  | <b>Interest net</b>                             | <b>(32,237)</b>         | <b>(29,236)</b>  | <b>(32,683)</b> |
|  | Net foreign exchange transaction gains/(losses) | 29,129                  | (86,618)         | 33,127          |
|  | Other   | (1,828)                 | 6,116            | 5,358           |
|  | <b>Other financial results</b>                  | <b>27,301</b>           | <b>(80,502)</b>  | <b>38,485</b>   |
|  | <b>Net financial results</b>                    | <b>(4,936)</b>          | <b>(109,738)</b> | <b>5,802</b>    |
|  | From Discontinued operations                    | (16)                    | 1,152            | 577             |

(4,952) (108,586) 6,379

Each item included in this note differs from its corresponding line in the income statement because it includes discontinued operations results.

**7 Equity in earnings of associated companies**

| (all amounts in thousands of U.S. dollars)                  | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2006                    | 2005           | 2004           |
| Equity in earnings of associated companies                  | 95,260                  | 117,003        | 123,015        |
| Change in fair value of convertible debt option in Amazonia |                         |                | 83,126         |
| Other   | (593)                   | 374            |                |
|   | <b>94,667</b>           | <b>117,377</b> | <b>206,141</b> |



**Table of Contents***Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004***8 Income tax**

| (all amounts in thousands of U.S. dollars)     | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2006                    | 2005           | 2004           |
| Current tax                                    | 897,427                 | 637,623        | 277,219        |
| Deferred tax                                   | (17,386)                | (61,837)       | (44,731)       |
|  | 880,041                 | 575,786        | 232,488        |
| Effect of currency translation on tax base (a) | (6,060)                 | (7,033)        | (12,112)       |
|  | 873,981                 | 568,753        | 220,376        |
| From Discontinued operations                   | (4,004)                 | (1,385)        | (3,150)        |
|  | <b>869,977</b>          | <b>567,368</b> | <b>217,226</b> |

The tax on Tenaris income before tax differs from the theoretical amount that would arise using the tax rate in each country as follows:

| (all amounts in thousands of U.S. dollars)        | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2006                    | 2005           | 2004           |
| Income before income tax                          | 2,882,201               | 1,954,703      | 1,018,178      |
| Tax calculated at the tax rate in each country    | 901,580                 | 591,167        | 265,837        |
| Non taxable income / Non deductible expenses      | (32,562)                | (32,807)       | (10,518)       |
| Changes in the tax rates in Mexico                |                         |                | (25,886)       |
| Effect of currency translation on tax base (a)    | (6,060)                 | (7,033)        | (12,112)       |
| Effect of taxable exchange differences            | 10,069                  | 17,087         | 10,742         |
| Utilization of previously unrecognized tax losses | (3,050)                 | (1,046)        | (10,837)       |
| <b>Tax charge</b>                                 | <b>869,977</b>          | <b>567,368</b> | <b>217,226</b> |

- (a) Tenaris applies the liability method to recognize deferred income tax expense on temporary differences between the tax bases of assets and their carrying amounts in the financial statements. By application of this method, Tenaris recognizes gains and losses on deferred income tax due to the effect of the change in the value of the Argentine peso on the tax bases of the fixed assets of its Argentine subsidiaries, which have the U.S. dollar as their functional currency. These gains and losses are required by IFRS even though the devalued tax basis of the relevant assets will result in a reduced dollar value of amortization deductions for tax purposes in future periods throughout the useful life of those assets. As a result, the resulting deferred income tax charge does not represent a separate obligation of Tenaris that is due and payable in any of the relevant periods.

**9 Earnings and dividends per share**

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the daily weighted average number of ordinary shares in issue during the year.

|   | Year ended December 31, |           |         |
|---|-------------------------|-----------|---------|
|   | 2006                    | 2005      | 2004    |
| Net income attributable to equity holders | 1,945,314               | 1,277,547 | 784,703 |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Weighted average number of ordinary shares in issue | 1,180,537 | 1,180,537 | 1,180,507 |
| Basic and diluted earnings per share                | 1.65      | 1.08      | 0.66      |
| Basic and diluted earnings per ADS                  | 3.30      | 2.16      | 1.33      |
| Dividends paid                                      | (204,233) | (349,439) | (135,053) |
| Dividends per share                                 | 0.17      | 0.30      | 0.11      |
| Dividends per ADS                                   | 0.35      | 0.59      | 0.23      |
| Net income from discontinued operations             | 47,180    | (3)       | 4,029     |
| Basic and diluted earnings per share                | 0.04      | 0.00      | 0.00      |
| Basic and diluted earnings per ADS                  | 0.08      | 0.00      | 0.01      |

The shareholders' meeting held on June 7, 2006 approved the payment of a dividend in the amount of \$0.30 per share or approximately \$354.1 million, corresponding to operating results for 2005. This amount included the interim dividend paid in November, 2005, in the amount of \$0.127 per share or approximately \$149.9 million. Tenaris paid the balance of the annual dividend amounting to approximately \$204.2 million corresponding to \$0.173 per share during 2006. During 2005 Tenaris paid \$199.5 million corresponding to \$0.169 per share.

The ratio of ordinary shares per American Depositary Shares (ADSs) was changed from a ratio of one ADS equal to ten ordinary shares to a new ratio of one ADS equal to two ordinary shares. The implementation date for this change was April 26, 2006, for shareholders of record at April 17, 2006. Earnings per ADS reflected above have been adjusted for this change in the conversion ratio.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**10 Property, plant and equipment, net**

| <b>Year ended December 31, 2006</b>                 | <b>Land,<br/>building and<br/>improvements</b> | <b>Plant and<br/>production<br/>equipment</b> | <b>Vehicles,<br/>furniture<br/>and<br/>fixtures</b> | <b>Work in<br/>progress</b> | <b>Spare<br/>parts and<br/>equipment</b> | <b>Total</b>     |
|---|--|---|---|-----------------------------|--|------------------|
| <b>Cost</b>   |  |   |   |                             |  |                  |
| Values at the beginning of the year                 | 408,191  | 5,442,181                                     | 126,315   | 173,715                     | 24,237                                   | 6,174,639        |
| Translation differences                             | 9,741  | 124,256                                       | 3,784   | 16,450                      | 1,047                                    | 155,278          |
| Additions   | 6,527  | 14,030  | 931   | 387,516                     | 5,400                                    | 414,404          |
| Disposals / Consumptions                            | (11,842)                                       | (34,608)                                      | (5,434)   | (21)                        | (12,559)                                 | (64,464)         |
| Transfers / Reclassifications                       | 12,633   | 171,274                                       | 19,505  | (211,450)                   | 7,731                                    | (307)            |
| Increase due to business combinations (see Note 28) | 126,003  | 277,066                                       | 26,581  | 27,557                      | 3,730                                    | 460,937          |
| Disposal due to sale of subsidiaries                | (8,306)  | (2,233)                                       | (3,509)   | (924)                       | (1,174)                                  | (16,146)         |
| <b>Values at the end of the year</b>                | <b>542,947</b>                                 | <b>5,991,966</b>                              | <b>168,173</b>                                      | <b>392,843</b>              | <b>28,412</b>                            | <b>7,124,341</b> |

**Depreciation**

|   |                |                  |                |                |               |                  |
|---|----------------|------------------|----------------|----------------|---------------|------------------|
| Accumulated at the beginning of the year  | 136,231        | 3,700,676        | 100,823        |                | 6,871         | 3,944,601        |
| Translation differences                   | 1,865          | 56,212           | 2,197          |                | 330           | 60,604           |
| Depreciation charge                       | 11,094         | 174,279          | 11,332         |                | 785           | 197,490          |
| Disposal due to sale of subsidiaries      | (1,478)        | (1,562)          | (2,057)        |                | (651)         | (5,748)          |
| Disposals / Consumptions                  | (38)           | (8,941)          | (2,865)        |                | (3)           | (11,847)         |
| Transfers / Reclassifications             | (733)          | (2,723)          | 3,470          |                | (14)          |                  |
| <b>Accumulated at the end of the year</b> | <b>146,941</b> | <b>3,917,941</b> | <b>112,900</b> |                | <b>7,318</b>  | <b>4,185,100</b> |
| <b>At December 31, 2006</b>               | <b>396,006</b> | <b>2,074,025</b> | <b>55,273</b>  | <b>392,843</b> | <b>21,094</b> | <b>2,939,241</b> |

| <b>Year ended December 31, 2005</b>                 | <b>Land,<br/>building and<br/>improvements</b> | <b>Plant and<br/>production<br/>equipment</b> | <b>Vehicles,<br/>furniture<br/>and<br/>fixtures</b> | <b>Work in<br/>progress</b> | <b>Spare<br/>parts and<br/>equipment</b> | <b>Total</b> |
|---|--|---|---|-----------------------------|--|--------------|
| <b>Cost</b>   |  |   |   |                             |  |              |
| Values at the beginning of the year                 | 353,416  | 5,386,286                                     | 118,193   | 84,942                      | 19,263                                   | 5,962,100    |
| Translation differences                             | 5,566  | (104,101)                                     | (244)   | 388                         | (844)                                    | (99,235)     |
| Additions   | 2,722  | 10,159  | 2,494   | 238,314                     | 10,706                                   | 264,395      |
| Disposals / Consumptions                            | (2,043)  | (9,344)                                       | (3,322)   |                             | (5,119)                                  | (19,828)     |
| Transfers / Reclassifications                       | 24,593   | 118,426                                       | 6,843   | (150,097)                   | 231                                      | (4)          |
| Increase due to business combinations (see Note 28) | 23,937   | 40,755  | 2,351   | 168                         |  | 67,211       |
| Values at the end of the year                       | 408,191  | 5,442,181                                     | 126,315   | 173,715                     | 24,237                                   | 6,174,639    |
| <b>Depreciation</b>                                 |  |   |   |                             |  |              |
| Accumulated at the beginning of the year            | 128,148  | 3,568,058                                     | 94,577  |                             | 6,716                                    | 3,797,499    |
| Translation differences                             | 1,778  | (37,199)                                      | (158)   |                             | (376)                                    | (35,955)     |
| Depreciation charge                                 | 13,177   | 170,491                                       | 8,649   |                             | 698                                      | 193,015      |
| Disposals / Consumptions                            | (515)  | (7,047)                                       | (2,229)   |                             | (167)                                    | (9,958)      |
| Transfers / Reclassifications                       | (6,357)  | 6,373   | (16)  |                             |  |              |

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|                                    |                |                  |               |                |               |                  |
|------------------------------------|----------------|------------------|---------------|----------------|---------------|------------------|
| Accumulated at the end of the year | 136,231        | 3,700,676        | 100,823       |                | 6,871         | 3,944,601        |
| <b>At December 31, 2005</b>        | <b>271,960</b> | <b>1,741,505</b> | <b>25,492</b> | <b>173,715</b> | <b>17,366</b> | <b>2,230,038</b> |

Property, plant and equipment include capitalized interest of \$19,686. The net amount at December 31, 2006 is \$2,854.

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**11 Intangible assets, net**

| Year ended December 31, 2006                        | Information system projects | Licenses, patents and trademarks | Goodwill (a) | Customer relationships (a) | Total     |
|---|-----------------------------|----------------------------------|--------------|----------------------------|-----------|
| <b>Cost</b>   |                             |                                  |              |                            |           |
| Values at the beginning of the year                 | 129,417                     | 10,285                           | 113,433      |                            | 253,135   |
| Translation differences                             | 5,649                       | 1,000                            |              |                            | 6,649     |
| Additions   | 26,137                      | 931                              |              |                            | 27,068    |
| Increase due to business combinations (see Note 28) | 11,811                      | 97,900                           | 1,114,287    | 1,493,800                  | 2,717,798 |
| Transfers / Reclassifications                       | 307                         |                                  |              |                            | 307       |
| Disposals   | (1,165)                     | (18)                             |              |                            | (1,183)   |
| Disposal due to sale of subsidiaries                | (17,001)                    | (6,958)                          |              |                            | (23,959)  |
| Values at the end of the year                       | 155,155                     | 103,140                          | 1,227,720    | 1,493,800                  | 2,979,815 |

**Amortization and impairment**

|  |               |               |                  |                  |                  |
|--|---------------|---------------|------------------|------------------|------------------|
| Accumulated at the beginning of the year | 85,164        | 8,872         |                  |                  | 94,036           |
| Translation differences                  | 4,175         | 1,131         |                  |                  | 5,306            |
| Amortization charge                      | 20,746        | 9,291         |                  | 27,477           | 57,514           |
| Transfers / Reclassifications            |               |               |                  |                  |                  |
| Disposals                                | (1,035)       | (18)          |                  |                  | (1,053)          |
| Disposal due to sale of subsidiaries     | (13,971)      | (6,515)       |                  |                  | (20,486)         |
| Accumulated at the end of the year       | 95,079        | 12,761        |                  | 27,477           | 135,317          |
| <b>At December 31, 2006</b>              | <b>60,076</b> | <b>90,379</b> | <b>1,227,720</b> | <b>1,466,323</b> | <b>2,844,498</b> |

| Year ended December 31, 2005                        | Information system projects | Licenses and patents | Goodwill (a) | Negative goodwill (a) | Total   |
|---|-----------------------------|----------------------|--------------|-----------------------|---------|
| <b>Cost</b>   |                             |                      |              |                       |         |
| Values at the beginning of the year                 | 114,584                     | 11,028               | 112,664      | (133,886)             | 104,390 |
| Effect of adopting IFRS 3                           |                             |                      |              | 133,886               | 133,886 |
| Translation differences                             | (4,148)                     | (1,172)              |              |                       | (5,320) |
| Additions   | 19,278                      | 801                  |              |                       | 20,079  |
| Increase due to business combinations (see Note 28) |                             |                      | 769          |                       | 769     |
| Transfers / Reclassifications                       | 4                           |                      |              |                       | 4       |
| Disposals   | (301)                       | (372)                |              |                       | (673)   |
| Values at the end of the year                       | 129,417                     | 10,285               | 113,433      |                       | 253,135 |

**Amortization and impairment**

|  |         |         |  |          |         |
|--|---------|---------|--|----------|---------|
| Accumulated at the beginning of the year | 68,989  | 9,301   |  | (23,111) | 55,179  |
| Effect of adopting IFRS 3                |         |         |  | 23,111   | 23,111  |
| Translation differences                  | (3,852) | (1,066) |  |          | (4,918) |
| Amortization charge                      | 20,231  | 981     |  |          | 21,212  |
| Transfers / Reclassifications            |         |         |  |          |         |

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|                                    |               |              |                |                |
|------------------------------------|---------------|--------------|----------------|----------------|
| Disposals                          | (204)         | (344)        |                | (548)          |
| Accumulated at the end of the year | 85,164        | 8,872        |                | 94,036         |
| <b>At December 31,2005</b>         | <b>44,253</b> | <b>1,413</b> | <b>113,433</b> | <b>159,099</b> |

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(a) Corresponds to the Tubes segment

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**11 Intangible assets, net (Cont d.)**

The geographical allocation of goodwill is presented below.

|               | <b>Year ended December 31,</b> |                |
|---------------|--------------------------------|----------------|
|               | <b>2006</b>                    | <b>2005</b>    |
| South America | 94,641                         | 93,239         |
| Europe        | 769                            | 769            |
| North America | 1,132,310                      | 19,425         |
|               | <b>1,227,720</b>               | <b>113,433</b> |

*Impairment tests for goodwill*

Goodwill is tested at the level of the CGUs. Impairment testing of the CGU is carried out and the value in use determined in accordance with the discounted cash flow method. In order to perform the test, Tenaris, uses projections for the next 5 years based on past performance and expectations of market development. After the fifth year a perpetuity rate with no grow up increase was utilized. The discount rates used for these tests are based on Tenaris weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. Discount rates used range from 9% to 12%.

No impairment charge resulted from the impairment tests performed.

As explained in Note 28 Tenaris acquired Maverick on October 5, 2006. Goodwill of \$1,113 million arised from this acquisition as the difference between the acquisition price and the fair value on the acquisition date of the identifiable tangible and intangible assets and liabilities determined mainly by an independent valuation. On account of the recent date of the transaction, the company s fair value is the same as its transaction value. Accordingly, no impairment needs to be recorded.

**12 Investments in associated companies**

|  | <b>Year ended December 31,</b> |                |
|--|--------------------------------|----------------|
|  | <b>2006</b>                    | <b>2005</b>    |
| At the beginning of the year                         | 257,234                        | 99,451         |
| Translation differences                              | (4,016)                        | (22,869)       |
| Equity in earnings of associated companies           | 95,260                         | 117,003        |
| Dividends and distributions received                 |                                | (59,127)       |
| Reorganization of Dalmine Energie, Lomond and others | 10,014                         |                |
| Capitalization of convertible loan in Amazonia       | 40,505                         | 120,058        |
| Increase in equity reserves in Ternium               | 23,961                         | 2,718          |
| <b>At the end of the year</b>                        | <b>422,958</b>                 | <b>257,234</b> |

The principal associated companies are:

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| Company                | Country of incorporation | Percentage of ownership and voting rights at December 31, |        | Value at December 31, |                |
|------------------------|--------------------------|---|--------|-----------------------|----------------|
|                        |                          | 2006  | 2005   | 2006                  | 2005           |
| Ternium S.A.           | Luxembourg               | 11.46%  | 15.00% | 408,044               | 253,796        |
| Dalmine Energie S.p.A. | Italy                    | 25.00%  | 0.00%  | 8,402                 |                |
| Others                 |                          |   |        | 6,512                 | 3,438          |
|                        |                          |   |        | <b>422,958</b>        | <b>257,234</b> |

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**Table of Contents***Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004***12 Investments in associated companies (Cont d.)**

Summarized financial information of each significant associated company, including the aggregated amounts of assets, liabilities, revenues and profit or loss is as follows:

|                          | Ternium S.A.     |                  | Dalmine Energie S.p.A. (a) |      |
|--------------------------|------------------|------------------|----------------------------|------|
|                          | 2006             | 2005             | 2006                       | 2005 |
| Non-current assets       | 6,124,326        | 6,116,423        | 9,174                      |      |
| Current assets           | 2,646,213        | 2,543,558        | 227,394                    |      |
| <b>Total assets</b>      | <b>8,770,539</b> | <b>8,659,981</b> | <b>236,568</b>             |      |
| Non-current liabilities  | 1,875,894        | 3,690,629        | 5,017                      |      |
| Current liabilities      | 1,407,504        | 1,393,433        | 197,944                    |      |
| <b>Total liabilities</b> | <b>3,283,398</b> | <b>5,084,062</b> | <b>202,961</b>             |      |
| Minority interest        | 1,729,583        | 1,733,465        |                            |      |
| Revenues                 | 6,568,975        | 4,447,680        | 77,847                     |      |
| Gross profit             | 2,267,591        | 1,976,836        | 4,271                      |      |
| Profit/Loss              | 795,424          | 704,406          | 7,785                      |      |

(a) Corresponds to the result of the one month period ended December 31, 2006.

**13 Other investments non current**

|                                   | Year ended December 31, |               |
|-----------------------------------|-------------------------|---------------|
|                                   | 2006                    | 2005          |
| Deposits with insurance companies | 13,937                  | 12,004        |
| Investments in other companies    | 12,724                  | 12,869        |
| Others                            | 173                     | 774           |
|                                   | <b>26,834</b>           | <b>25,647</b> |

**14 Receivables non current**

|                                  | Year ended December 31, |        |
|----------------------------------|-------------------------|--------|
|                                  | 2006                    | 2005   |
| Government entities              | 5,798                   | 5,918  |
| Employee advances and loans      | 7,768                   | 5,053  |
| Tax credits                      | 11,640                  | 6,121  |
| Trade receivables                | 1,144                   | 1,108  |
| Receivables from related parties | 2,829                   | 3,321  |
| Convertible loans                |                         | 40,358 |

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|  |               |               |
|--|---------------|---------------|
| Receivables on off- take contract                  | 8,377         | 9,677         |
| Other  | 17,802        | 9,746         |
|  | <b>55,358</b> | <b>81,302</b> |
| Allowances for doubtful accounts (see Note 23 (i)) | (14,120)      | (15,450)      |
|  | <b>41,238</b> | <b>65,852</b> |

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**Table of Contents***Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004***15 Inventories**

|  | <b>Year ended December 31,</b> |                  |
|--|--------------------------------|------------------|
|  | <b>2006</b>                    | <b>2005</b>      |
| Finished goods                           | 1,060,322                      | 479,756          |
| Goods in process                         | 430,828                        | 404,518          |
| Raw materials                            | 421,322                        | 183,900          |
| Supplies                                 | 328,324                        | 241,974          |
| Goods in transit                         | 210,985                        | 151,715          |
|  | <b>2,451,781</b>               | <b>1,461,863</b> |
| Allowance for obsolescence (Note 24 (i)) | (79,473)                       | (85,750)         |
|  | <b>2,372,308</b>               | <b>1,376,113</b> |

**16 Receivables and prepayments**

|   | <b>Year ended December 31,</b> |                |
|---|--------------------------------|----------------|
|   | <b>2006</b>                    | <b>2005</b>    |
| Reimbursements and other receivable                     | 59,346                         | 25,044         |
| Government entities                                     | 1,951                          | 19,044         |
| Employee advances and loans                             | 8,677                          | 7,922          |
| Advances to suppliers                                   | 123,369                        | 49,219         |
| Other advances  | 1,531                          | 1,624          |
| Government tax refunds on exports                       | 33,387                         | 16,410         |
| Receivables from related parties                        | 19,160                         | 13,695         |
| Miscellaneous   | 32,995                         | 23,411         |
|   | <b>280,416</b>                 | <b>156,369</b> |
| Allowance for other doubtful accounts (see Note 24 (i)) | (7,784)                        | (13,087)       |
|   | <b>272,632</b>                 | <b>143,282</b> |

**17 Current tax assets**

|                | <b>Year ended December 31,</b> |                |
|----------------|--------------------------------|----------------|
|                | <b>2006</b>                    | <b>2005</b>    |
| V.A.T. credits | 123,366                        | 90,000         |
| Prepaid taxes  | 79,352                         | 12,455         |
|                | <b>202,718</b>                 | <b>102,455</b> |

**18 Trade receivables**

|   | <b>Year ended December 31,</b> |                  |
|---|--------------------------------|------------------|
|   | <b>2006</b>                    | <b>2005</b>      |
| Current accounts                                  | 1,544,202                      | 1,256,882        |
| Notes receivables                                 | 83,906                         | 60,972           |
| Receivables from related parties                  | 19,919                         | 31,279           |
|   | 1,648,027                      | 1,349,133        |
| Allowance for doubtful accounts (see Note 24 (i)) | (22,786)                       | (24,962)         |
|   | <b>1,625,241</b>               | <b>1,324,171</b> |

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**19 Cash and cash equivalents, and Other investments**

|  | Year ended December 31, |         |
|--|-------------------------|---------|
|  | 2006                    | 2005    |
| <b>Other investments</b>               |                         |         |
| Financial assets                       | 183,604                 | 119,907 |
| <b>Cash and cash equivalents</b>       |                         |         |
| Cash and short term liquid investments | 1,372,329               | 707,356 |

**20 Borrowings**

|                           | Year ended December 31, |                  |
|---------------------------|-------------------------|------------------|
|                           | 2006                    | 2005             |
| <b>Non-Current</b>        |                         |                  |
| Bank borrowings           | 2,823,052               | 635,896          |
| Other loans               | 50,479                  | 38,407           |
| Finance lease liabilities | 4,565                   | 5,425            |
| Costs of issue of debt    | (21,050)                | (1,616)          |
|                           | 2,857,046               | 678,112          |
| <b>Current</b>            |                         |                  |
| Bank Borrowings           | 707,610                 | 238,510          |
| Other loans               | 83,942                  | 67,451           |
| Bank Overdrafts           | 7,300                   | 24,717           |
| Finance lease liabilities | 1,384                   | 1,502            |
| Costs of issue of debt    | (6,039)                 |                  |
|                           | 794,197                 | 332,180          |
| <b>Total Borrowings</b>   | <b>3,651,243</b>        | <b>1,010,292</b> |

The maturity of borrowings is as follows:

|                             | 1 year<br>or<br>less | 1 - 2<br>years | 2 - 3<br>years | 3 - 4<br>years | 4 - 5<br>years | Over 5<br>years | Total            |
|-----------------------------|----------------------|----------------|----------------|----------------|----------------|-----------------|------------------|
| <b>At December 31, 2006</b> |                      |                |                |                |                |                 |                  |
| Financial lease             | 1,384                | 1,116          | 822            | 758            | 663            | 1,206           | 5,949            |
| Other borrowings            | 792,813              | 803,381        | 924,647        | 568,965        | 507,030        | 48,458          | 3,645,294        |
| <b>Total borrowings</b>     | <b>794,197</b>       | <b>804,497</b> | <b>925,469</b> | <b>569,723</b> | <b>507,693</b> | <b>49,664</b>   | <b>3,651,243</b> |

Significant borrowings include:

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| Date         | Borrower     | Type            | In million of \$          |                              | Maturity     |
|--------------|--------------|-----------------|---------------------------|------------------------------|--------------|
|              |              |                 | Original Principal amount | Outstanding principal amount |              |
| March 2005   | Tamsa        | Syndicated loan | 300.0                     | 300.0                        | March 2010   |
| April 2005   | Siderca      | Syndicated loan | 125.0                     | 93.8                         | April 2008   |
| October 2006 | Tenaris S.A. | Syndicated loan | 500.0                     | 500.0                        | October 2011 |
| October 2006 | Tamsa        | Syndicated loan | 700.0                     | 700.0                        | October 2011 |
| October 2006 | Siderca      | Syndicated loan | 480.5                     | 480.5                        | October 2009 |
| October 2006 | Dalmine      | Syndicated loan | 150.0                     | 150.0                        | October 2011 |
| October 2006 | Algoma Tubes | Syndicated loan | 100.0                     | 100.0                        | October 2011 |
| October 2006 | Maverick     | Syndicated loan | 750.0                     | 750.0                        | October 2011 |

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**20 Borrowings (Continued)**

The main covenants on these loan agreements are limitations on liens and encumbrances, restrictions in investments and capital expenditures, limitations in the sale of certain assets and compliance with financial ratios (e.g, leverage ratio and interest coverage ratio calculated on each subsidiary's financial statements). In addition, Tenaris's loan agreement is secured with a pledge of a percentage of Maverick's shares, as explained in Note 28. Tenaris is allowed to make payments such as dividends, repurchase or redemption of shares up to the greater of \$475 million or 25% of consolidated net income for the previous fiscal year; once the outstanding amount of Tenaris's facility is less than \$425 million, no restrictions will apply.

Tenaris's consolidated debt includes \$127 million of Dalmine and \$26 million of Confab secured by certain properties of these subsidiaries.

As of December 31, 2006, Tenaris was in compliance with all of its covenants.

The weighted average interest rates before tax shown below were calculated using the rates set for each instrument in its corresponding currency as of December 31, 2006 and 2005. These rates reflect the upward trend in the reference rates.

|                           | 2006  | 2005  |
|---------------------------|-------|-------|
| Bank borrowings           | 6.12% | 5.14% |
| Other loans               | 5.50% | 4.51% |
| Finance lease liabilities | 3.71% | 3.14% |

Breakdown of long-term borrowings by currency and rate is as follows:

**Non current bank borrowings**

| Currency  | Interest rates | Year ended December 31, |                |
|---|----------------|-------------------------|----------------|
|   |                | 2006                    | 2005           |
| USD   | Variable       | 3,140,894               | 546,921        |
| USD   | Fixed          | 10,289                  |                |
| EURO  | Variable       | 40,462                  | 93,621         |
| EURO  | Fixed          | 6,246                   | 30,709         |
| JPY   | Variable       |                         | 23,310         |
| JPY   | Fixed          | 11,854                  | 17,084         |
| BRS   | Variable       | 25,938                  | 23,306         |
|   |                | 3,235,683               | 734,951        |
| Less: Current portion of medium and long - term loans |                | (412,631)               | (99,055)       |
| <b>Total non current bank borrowings</b>              |                | <b>2,823,052</b>        | <b>635,896</b> |

**Non current other loans**

| Currency | Interest rates | Year ended December 31, |        |
|----------|----------------|-------------------------|--------|
|          |                | 2006                    | 2005   |
| COP      | Variable       | 622                     |        |
| USD      | Variable       | 52,853                  | 49,332 |

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|   |               |               |
|---|---------------|---------------|
|   | 53,475        | 49,332        |
| Less: Current portion of medium and long - term loans | (2,996)       | (10,925)      |
| <b>Total non current other loans</b>                  | <b>50,479</b> | <b>38,407</b> |

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**20 Borrowings (Cont d.)****Non current finance lease liabilities**

| Currency  | Interest rates | Year ended December 31, |              |
|---|----------------|-------------------------|--------------|
|   |                | 2006                    | 2005         |
| EURO  | Fixed          | 79                      | 29           |
| COP   | Variable       | 185                     |              |
| JPY   | Fixed          | 5,685                   | 6,898        |
|   |                | 5,949                   | 6,927        |
| Less: Current portion of medium and long - term loans |                | (1,384)                 | (1,502)      |
| Total non current finance leases                      |                | <b>4,565</b>            | <b>5,425</b> |

The carrying amounts of Tenaris assets pledged as collateral of liabilities are as follows:

|   | Year ended December 31, |         |
|---|-------------------------|---------|
|   | 2006                    | 2005    |
| Property, plant and equipment mortgages | 554,078                 | 595,627 |

Breakdown of short-term borrowings by currency and rate is as follows:

**Current bank borrowings**

| Currency                             | Interest rates | Year ended December 31, |                |
|--------------------------------------|----------------|-------------------------|----------------|
|                                      |                | 2006                    | 2005           |
| USD                                  | Variable       | 456,954                 | 50,597         |
| USD                                  | Fixed          | 202,620                 | 55,946         |
| EUR                                  | Variable       | 23,365                  | 64,810         |
| EUR                                  | Fixed          | 1,146                   | 1,882          |
| JPY                                  | Variable       |                         | 10,741         |
| JPY                                  | Fixed          | 11,854                  | 5,226          |
| BRS                                  | Variable       | 8,255                   | 5,197          |
| ARS                                  | Fixed          |                         | 44,111         |
| NGN                                  | Fixed          | 3,403                   |                |
| VEB                                  | Fixed          | 13                      |                |
| <b>Total current bank borrowings</b> |                | <b>707,610</b>          | <b>238,510</b> |

**Bank overdrafts**

| Currency | Year ended December 31, |        |
|----------|-------------------------|--------|
|          | 2006                    | 2005   |
| USD      | 1,855                   | 16,406 |

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|                                      |              |               |
|--------------------------------------|--------------|---------------|
| EUR                                  | 2,558        | 3,298         |
| ARS                                  | 1,839        | 3,193         |
| VEB                                  |              | 1,820         |
| CAD                                  | 864          |               |
| NOK                                  | 182          |               |
| RON                                  | 2            |               |
| <b>Total current bank overdrafts</b> | <b>7,300</b> | <b>24,717</b> |

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**20 Borrowings (Cont d.)****Current other loans**

| Currency                         | Interest rates | Year ended December 31, |               |
|----------------------------------|----------------|-------------------------|---------------|
|                                  |                | 2006                    | 2005          |
| EUR                              | Variable       | 73,183                  | 51,333        |
| USD                              | Variable       | 10,251                  | 16,118        |
| USD                              | Fixed          | 462                     |               |
| COP                              | Variable       | 46                      |               |
| <b>Total Current other loans</b> |                | <b>83,942</b>           | <b>67,451</b> |

**Current finance lease liabilities**

| Currency                            | Interest rates | Year ended December 31, |              |
|-------------------------------------|----------------|-------------------------|--------------|
|                                     |                | 2006                    | 2005         |
| EUR                                 | Fixed          | 21                      | 29           |
| COP                                 | Variable       | 121                     |              |
| JPY                                 | Fixed          | 1,242                   | 1,473        |
| <b>Total current finance leases</b> |                | <b>1,384</b>            | <b>1,502</b> |

**21 Deferred income tax**

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rate of each country.

The movement on the deferred income tax account is as follows:

|  | Year ended December 31, |                |
|--|-------------------------|----------------|
|  | 2006                    | 2005           |
| At the beginning of the year                       | 158,521                 | 210,802        |
| Translation differences                            | 2,570                   | 8,605          |
| Increase due to business combinations              | 560,450                 |                |
| Disposals  | 2,971                   |                |
| Income statement credit                            | (17,386)                | (61,837)       |
| Effect of currency translation on tax base         | (6,060)                 | (7,033)        |
| Deferred employees statutory profit sharing charge | (762)                   | 7,984          |
| At the end of the year                             | <b>700,304</b>          | <b>158,521</b> |

The evolution of deferred tax assets and liabilities during the year are as follows:

**Deferred tax liabilities**

|                                       |                     |                    | <b>Intangible and</b> |                |
|---------------------------------------|---------------------|--------------------|-----------------------|----------------|
|                                       | <b>Fixed assets</b> | <b>Inventories</b> | <b>Other (a)</b>      | <b>Total</b>   |
| At the beginning of the year          | 227,370             | 45,600             | 80,425                | 353,395        |
| Translation differences               | 6,670               | (308)              | 131                   | 6,493          |
| Increase due to business combinations | 75,455              | 2,286              | 581,097               | 658,838        |
| Disposals                             |                     | (6)                | (163)                 | (169)          |
| Income statement charge / (credit)    | 7,653               | 3,795              | (38,060)              | (26,612)       |
| <b>At December 31, 2006</b>           | <b>317,148</b>      | <b>51,367</b>      | <b>623,430</b>        | <b>991,945</b> |

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**21 Deferred income tax (Cont d.)**

|                                    | Fixed assets   | Inventories   | Other (a)     | Total          |
|------------------------------------|----------------|---------------|---------------|----------------|
| At the beginning of the year       | 204,243        | 63,453        | 104,279       | 371,975        |
| Translation differences            | 19,486         | 2,482         | 489           | 22,457         |
| Income statement charge / (credit) | 3,641          | (20,335)      | (24,343)      | (41,037)       |
| <b>At December 31, 2005</b>        | <b>227,370</b> | <b>45,600</b> | <b>80,425</b> | <b>353,395</b> |

(a) Includes the effect of currency translation on tax base explained in Note 8.

**Deferred tax assets**

|                                       | Provisions      |                  |                |                  | Total            |
|---------------------------------------|-----------------|------------------|----------------|------------------|------------------|
|                                       | and allowances  | Inventories      | Tax losses     | Other            | Total            |
| At the beginning of the year          | (32,631)        | (74,214)         | (11,993)       | (76,036)         | (194,874)        |
| Translation differences               | (2,342)         | (179)            | (577)          | (825)            | (3,923)          |
| Increase due to business combinations | (7,005)         | (3,137)          | (1,112)        | (87,134)         | (98,388)         |
| Disposal                              | 975             |                  |                | 2,165            | 3,140            |
| Income statement charge / (credit)    | (1,267)         | (65,313)         | 10,048         | 58,936           | 2,404            |
| <b>At December 31, 2006</b>           | <b>(42,270)</b> | <b>(142,843)</b> | <b>(3,634)</b> | <b>(102,894)</b> | <b>(291,641)</b> |

|                                    | Provisions      |                 |                 |                 | Total            |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|
|                                    | and allowances  | Inventories     | Tax losses      | Other           | Total            |
| At the beginning of the year       | (62,629)        | (41,292)        | (15,707)        | (41,545)        | (161,173)        |
| Translation differences            | (13,239)        | (232)           | 792             | (1,173)         | (13,852)         |
| Income statement charge / (credit) | 43,237          | (32,690)        | 2,922           | (33,318)        | (19,849)         |
| <b>At December 31, 2005</b>        | <b>(32,631)</b> | <b>(74,214)</b> | <b>(11,993)</b> | <b>(76,036)</b> | <b>(194,874)</b> |

Deferred income tax assets and liabilities are offset when (1) there is a legally enforceable right to setoff current tax assets against current tax liabilities and (2) the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate setoff, are shown in the consolidated balance sheet:

|                          | Year ended December 31, |                |
|--------------------------|-------------------------|----------------|
|                          | 2006                    | 2005           |
| Deferred tax assets      | (291,641)               | (194,874)      |
| Deferred tax liabilities | 991,945                 | 353,395        |
|                          | <b>700,304</b>          | <b>158,521</b> |

The amounts shown in the balance sheet include the following:

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|  | Year ended December 31, |          |
|--|-------------------------|----------|
|  | 2006                    | 2005     |
| Deferred tax assets to be recovered after more than 12 months      | (79,811)                | (49,662) |
| Deferred tax liabilities to be recovered after more than 12 months | 849,730                 | 225,486  |

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**Table of Contents***Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004***22 Other liabilities****(i) Other liabilities Non current**

|                                     | Year ended December 31, |                |
|-------------------------------------|-------------------------|----------------|
|                                     | 2006                    | 2005           |
| Employee liabilities                |                         |                |
| Employee s statutory profit sharing | 64,196                  | 64,010         |
| Employee severance indemnity        | 67,598                  | 62,279         |
| Pension benefits                    | 36,067                  | 10,788         |
|                                     | 167,861                 | 137,077        |
| Taxes payable                       | 8,842                   | 9,364          |
| Miscellaneous                       | 10,021                  | 7,937          |
|                                     | 18,863                  | 17,301         |
|                                     | <b>186,724</b>          | <b>154,378</b> |

*(a) Employees severance indemnity*

The amounts recognized in the balance sheet are as follows:

|   | Year ended December 31, |               |
|---|-------------------------|---------------|
|   | 2006                    | 2005          |
| <b>Total included in non - current Employee liabilities</b> | <b>67,598</b>           | <b>62,279</b> |

The amounts recognized in the income statement are as follows:

|                                      | Year ended December 31, |               |               |
|--------------------------------------|-------------------------|---------------|---------------|
|                                      | 2006                    | 2005          | 2004          |
| Current service cost                 | 8,737                   | 7,846         | 9,999         |
| Interest cost                        | 2,851                   | 2,771         | 2,908         |
| <b>Total included in Labor costs</b> | <b>11,588</b>           | <b>10,617</b> | <b>12,907</b> |

The principal actuarial assumptions used were as follows:

Year ended December 31,

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|                               | 2006   | 2005 | 2004 |
|-------------------------------|--------|------|------|
| Discount rate                 | 4% -5% | 5%   | 4%   |
| Rate of compensation increase | 2% -4% | 4%   | 3%   |

(b) *Pension benefits*

The amounts recognized in the balance sheet are determined as follows:

|                                       | Year ended December 31, |               |
|---------------------------------------|-------------------------|---------------|
|                                       | 2006                    | 2005          |
| Present value of unfunded obligations | 41,156                  | 15,707        |
| Unrecognized actuarial losses         | (5,089)                 | (4,919)       |
| <b>Liability in the balance sheet</b> | <b>36,067</b>           | <b>10,788</b> |



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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**22 Other liabilities (Cont d.)**

The amounts recognized in the income statement are as follows:

|   | Year ended December 31, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2006                    | 2005         | 2004         |
| Current service cost                                      | 1,400                   | 544          | 571          |
| Interest cost   | 2,185                   | 917          | 875          |
| Net actuarial losses in the income recognized in the year | (1,124)                 | 329          | 2,870        |
| <b>Total included in Labor costs</b>                      | <b>2,461</b>            | <b>1,790</b> | <b>4,316</b> |

Movement in the liability recognized in the balance sheet:

|  | Year ended December 31, |               |
|--|-------------------------|---------------|
|  | 2006                    | 2005          |
| At the beginning of the year               | 10,788                  | 11,578        |
| Transfers and new participants of the plan | 992                     |               |
| Total expense                              | 2,461                   | 1,790         |
| Translation differences                    | (654)                   | (272)         |
| Contributions paid                         | (2,696)                 | (2,308)       |
| Increase due to business combinations      | 25,307                  |               |
| Disposal                                   | (131)                   |               |
| <b>At the end of the year</b>              | <b>36,067</b>           | <b>10,788</b> |

*The principal actuarial assumptions used were as follows:*

|                               | Year ended December 31, |      |      |
|-------------------------------|-------------------------|------|------|
|                               | 2006                    | 2005 | 2004 |
| Discount rate                 | 5% - 7%                 | 7%   | 7%   |
| Rate of compensation increase | 2% - 5%                 | 2%   | 2%   |

**(ii) Other liabilities current**

|                                     | Year ended December 31, |                |
|-------------------------------------|-------------------------|----------------|
|                                     | 2006                    | 2005           |
| Payroll and social security payable | 148,146                 | 102,052        |
| Liabilities with related parties    | 2,237                   | 2,688          |
| Miscellaneous                       | 37,318                  | 34,135         |
|                                     | <b>187,701</b>          | <b>138,875</b> |



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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**23 Non-current allowances and provisions**

(i) *Deducted from non current receivables*

|                                       | Year ended December 31, |                 |
|---------------------------------------|-------------------------|-----------------|
|                                       | 2006                    | 2005            |
| Values at the beginning of the year   | (15,450)                | (13,172)        |
| Translation differences               | 153                     | 185             |
| Reversals / Additional allowances (*) | (15)                    | (81)            |
| Used (*)                              | 1,192                   | (2,382)         |
| <b>At December 31</b>                 | <b>(14,120)</b>         | <b>(15,450)</b> |

(\*) Includes effect of allowances on off take credits, which are reflected in the Cost of sales.

(ii) *Liabilities*

|                                       | Year ended December 31, |               |
|---------------------------------------|-------------------------|---------------|
|                                       | 2006                    | 2005          |
| Values at the beginning of the year   | 43,964                  | 31,776        |
| Translation differences               | 2,999                   | 406           |
| Increase due to business combinations | 11,394                  |               |
| Reversals / Additional provisions     | 12,146                  | 16,015        |
| Reclassifications                     | 31,910                  |               |
| Used                                  | (10,386)                | (4,233)       |
|                                       | <b>92,027</b>           | <b>43,964</b> |

**24 Current allowances and provisions**

(i) *Deducted from assets*

|                                       | Allowance for<br>doubtful accounts -<br>Trade receivables | Allowance for other<br>doubtful accounts -<br>Other receivables | Allowance for<br>inventory<br>obsolescence |
|---------------------------------------|---|---|--|
| <b>Year ended December 31, 2006</b>   |   |   |  |
| Values at the beginning of the year   | (24,962)  | (13,087)  | (85,750)                                   |
| Translation differences               | (1,274)   | (575)   | (4,151)                                    |
| Increase due to business combinations | (1,673)   | (188)   | (253)                                      |

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|                                       |                 |                 |                 |
|---------------------------------------|-----------------|-----------------|-----------------|
| Disposal due to deconsolidation       | 3,222           |                 |                 |
| Reversals / Additional allowances     | (1,449)         | 640             | 8,006           |
| Used                                  | 3,350           | 5,426           | 2,675           |
| <b>At December 31, 2006</b>           | <b>(22,786)</b> | <b>(7,784)</b>  | <b>(79,473)</b> |
| <b>Year ended December 31, 2005</b>   |                 |                 |                 |
| Values at the beginning of the year   | (24,164)        | (8,346)         | (67,122)        |
| Translation differences               | 1,309           | (174)           | 2,941           |
| Increase due to business combinations | (843)           |                 | (11,931)        |
| Reversals / Additional allowances     | (4,722)         | (3,709)         | (20,303)        |
| Used                                  | 3,458           | (858)           | 10,665          |
| <b>At December 31, 2005</b>           | <b>(24,962)</b> | <b>(13,087)</b> | <b>(85,750)</b> |

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**24 Current allowances and provisions (Continued)***(ii) Liabilities*

|                                       | Sales risks   | Other claims and contingencies | Total         |
|---------------------------------------|---------------|--------------------------------|---------------|
| <b>Year ended December 31, 2006</b>   |               |                                |               |
| Values at the beginning of the year   | 3,489         | 33,456                         | 36,945        |
| Translation differences               | 112           | 2,690                          | 2,802         |
| Increase due to business combinations | 16,700        | 781                            | 17,481        |
| Reversals / Additional allowances     | 840           | 808                            | 1,648         |
| Reclassifications                     |               | (27,977)                       | (27,977)      |
| Used                                  | (1,047)       | (3,207)                        | (4,254)       |
| <b>At December 31, 2006</b>           | <b>20,094</b> | <b>6,551</b>                   | <b>26,645</b> |
| <b>Year ended December 31, 2005</b>   |               |                                |               |
| Values at the beginning of the year   | 5,509         | 37,127                         | 42,636        |
| Translation differences               | (518)         | (3,849)                        | (4,367)       |
| Reversals / Additional allowances     | (493)         | 8,227                          | 7,734         |
| Used                                  | (1,009)       | (8,049)                        | (9,058)       |
| <b>At December 31, 2005</b>           | <b>3,489</b>  | <b>33,456</b>                  | <b>36,945</b> |

**25 Derivative financial instruments***Net fair values of derivative financial instruments*

The net fair values of derivative financial instruments disclosed within Other liabilities and Other receivables at the balance sheet date, in accordance with IAS 39, were:

|                                     | Year ended December 31,<br>2006 | 2005    |
|-------------------------------------|---------------------------------|---------|
| Contracts with positive fair values |                                 |         |
| Interest rate swap contracts        | 722                             | 3,641   |
| Forward foreign exchange contracts  | 1,188                           | 441     |
| Contracts with negative fair values |                                 |         |
| Interest rate swap contracts        | (242)                           | (921)   |
| Forward foreign exchange contracts  | (1,958)                         | (7,818) |

Derivative financial instruments breakdown is as follows:

*Variable interest rate swaps*

| Notional amount | Swap | Term | Fair Value |
|-----------------|------|------|------------|
|-----------------|------|------|------------|

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|     |           |                              | Year ended December 31, |              |
|-----|-----------|------------------------------|-------------------------|--------------|
|     |           |                              | 2006                    | 2005         |
| EUR | 9,097     | Pay fixed / Receive variable | 2007                    | (8)          |
| EUR | 1,176     | Pay fixed / Receive variable | 2009                    | (34)         |
| EUR | 5,830     | Pay fixed / Receive variable | 2010                    | (190)        |
| USD | 100,000   | Pay fixed / Receive variable | 2009                    | 2,228        |
| USD | 200,000   | Interest rate collar         | 2010                    | 1,413        |
| USD | 1,500,000 | Interest rate collar         | 2008                    | 712          |
|     |           |                              | <b>480</b>              | <b>2,720</b> |

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**25 Derivative financial instruments (Cont d.)**

To partially hedge future interest payments, as well as to minimize the effect of floating rates, Tenaris has entered into zero cost interest rate collars. In these contracts, effective as from April 2007, the Company has agreed to exchange with the counterparty, at specified intervals, the difference between interest amounts calculated by reference to an agreed-upon notional principal amount of USD 1,500.0 million, to the extent that it is lower than the floor or greater than the cap established in such contracts.

*Exchange rate derivatives*

| Currencies | Contract                         | Term      | Fair Value                   |                |
|------------|----------------------------------|-----------|------------------------------|----------------|
|            |                                  |           | Year ended December 31, 2006 | 2005           |
| USD / EUR  | Euro Forward purchases           | 2008/2007 | 870                          | (1,502)        |
| JPY / USD  | Japanese Yen Forward purchases   | 2007      | (1,229)                      | (3,579)        |
| CAD / USD  | Canadian Dollar Forward sales    | 2007      | 318                          |                |
| BRL / USD  | Brazilian Real Forward sales     | 2007      |                              | 8              |
| ARS / USD  | Argentine Peso Forward purchases | 2007      |                              | (2,186)        |
| ARS / USD  | Argentine Peso Forward sales     | 2007      | (359)                        |                |
| KWD / USD  | Kuwaiti Dinar Forward sales      | 2007      | (370)                        | (118)          |
|            |                                  |           | <b>(770)</b>                 | <b>(7,377)</b> |

**26 Contingencies, commitments and restrictions on the distribution of profits**

Tenaris is involved in litigation arising from time to time in the ordinary course of business. Based on management's assessment and the advice of legal counsel, it is not anticipated that the ultimate resolution of pending litigation will result in amounts in excess of recorded provisions (Notes 23 and 24) that would be material to Tenaris' consolidated financial position or results of operations.

*Conversion of tax loss carry-forwards*

On December 18, 2000, the Argentine tax authorities notified Siderca S.A.I.C. (Siderca, a subsidiary of the Company organized in Argentina) of an income tax assessment related to the conversion of tax loss carry-forwards into Debt Consolidation Bonds under Argentine Law No. 24.073. The adjustments proposed by the tax authorities represent an estimated contingency of ARP70.2 million (approximately \$23.0 million) at December 31, 2006 in taxes and penalties. Based on the views of Siderca's tax advisors, Tenaris believes that the ultimate resolution of the matter will not result in a material obligation. Accordingly, no provision was recorded in these financial statements.

*Asbestos-related Litigation*

Dalmine S.p.A. (Dalmine), a subsidiary of the Company organized in Italy is currently subject to thirteen civil proceedings for work-related injuries arising from the use of asbestos in its manufacturing processes during the period from 1960 to 1980. In addition, another eighteen asbestos related out-of-court claims and one civil party claim have been forwarded to Dalmine.

As of December 31, 2006, the total claims pending against Dalmine were thirty two (of which, three are covered by insurance): during 2006 two new claims were filed four claims were dismissed and one claim was settled. Aggregate settlement costs to date for Tenaris are Euro3.8 million. Dalmine estimates that its potential liability in connection with the claims not yet settled is approximately Euro 12.6 million (\$ 16.6 million).

Accruals for Dalmine's potential liability are based on the average of the amounts paid by Dalmine for asbestos-related claims plus an additional amount related to some reimbursements requested by the social security authority. The maximum potential liability is not determinable as in

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some cases the requests for damages do not specify amounts, and instead is to be determined by the court. The timing of payment of the amounts claimed is not presently determinable.

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**Table of Contents***Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004***26 Contingencies, commitments and restrictions on the distribution of profits (Cont d.)***Maverick litigation*

On December 11, 2006, The Bank of New York ( BNY ), as trustee for the holders of the Maverick 2004 4% Convertible Senior Subordinated Notes due 2033 issued pursuant to an Indenture between Maverick and BNY ( Noteholders ), filed a complaint against Maverick and Tenaris in the United States District Court for the Southern District of New York. The complaint alleges that Tenaris's acquisition of Maverick triggered the Public Acquirer Change of Control provision of the Indenture. The complaint asserts breach of contract claim against Maverick for refusing to deliver the consideration specified in the Public Acquirer Change of Control provision of the Indenture to Noteholders who tendered their notes for such consideration, seeks a declaratory judgment that Tenaris's acquisition of Maverick was a Public Acquirer Change of Control under the Indenture, and asserts claims for tortious interference with contract and unjust enrichment against Tenaris.

Tenaris believes that these claims are without merit. Accordingly, no provision was recorded in these financial statements. Were plaintiff to prevail, Tenaris estimates that the recovery would be approximately \$50 million.

*European Commission Fine*

On January 25, 2007, the Court of Justice of the European Commission confirmed the December 8, 1998 decision by the European Commission to fine eight international steel pipe manufacturers, including Dalmine, for violation of European competition laws. Pursuant to the Court's decision, Dalmine is required to pay a fine of Euro10.1 million (\$13.3 million). Since the infringements for which the fine was imposed took place prior to the acquisition of Dalmine by Tenaris in 1996, Dalmine's former owner, who had instructed Dalmine to appeal, is required and has acknowledged its responsibility to pay 84.1% of the fine. The remaining 15.9% of the fine will be paid out of the provision that Dalmine established in 1999 for such proceeding.

*BHP litigation and arbitration proceeding against Fintecna*

On December 30, 2003 Dalmine and a consortium led by BHP Billiton Petroleum Ltd. ( BHP ) settled a litigation concerning the failure of an underwater pipeline. The pipe that was the subject of the litigation with BHP was manufactured and sold, and the tort alleged by BHP took place, prior to the privatization of Dalmine. According to the terms of the settlement, Dalmine paid BHP a total of GBP 108.0 million (\$207.2 million), inclusive of expenses. Techint Investments Netherlands B.V. ( Tenet ) the subsidiary of the Company that was party to the Dalmine privatization contract commenced arbitration proceedings against Fintecna S.p.A. ( Fintecna ), an Italian state-owned entity and successor to ILVA S.p.A., the former owner of Dalmine, seeking indemnification from Fintecna for any amounts paid or payable by Dalmine to BHP. On December 28, 2004, an arbitral tribunal rendered a final award in the arbitration proceeding against Fintecna, pursuant to which, Fintecna paid Tenaris a total amount of Euro 93.8 million (\$127.2 million) on March 15, 2005. Neither party has any further outstanding obligations in respect of the BHP litigation.

*Commitments*

Set forth is a description of Tenaris's main outstanding commitments:

Tenaris has transportation capacity agreements with Transportadora de Gas del Norte S.A. (TGN), corresponding to capacity of 1,000,000 cubic meters per day until 2017, the outstanding value of this commitment is approximately \$68.0 million. We also expect to obtain additional gas transportation capacity of 315,000 cubic meters per day until 2027. This commitment is subject to the enlargement of the trunk pipelines in Argentina that are expected to be ready by 2008.

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In July 2004, Tenaris subsidiary Matesi Materiales Siderúrgicos S.A. ( Matesi ) entered into a twenty-year agreement with C.V.G. Electrificación del Caroní, C.A. ( Edelca ) for the purchase of electric power under certain take-or-pay conditions, with an option to terminate the contract at any time upon three years notice. The outstanding value of the contract at December 31, 2006 is approximately \$65.9million.

In August 2004 Matesi entered into a ten-year off-take contract pursuant to which Matesi is required to sell to Sidor on a take-or-pay basis 29.9% of Matesi s HBI production. In addition, Sidor has the right to increase its proportion on Matesi s production by an extra 19.9% until reaching 49.8% of Matesi s HBI production. Under the contract, the sale price is determined on a cost-plus basis. The contract is renewable for additional three year periods unless Matesi or Sidor objects its renewal more than a year prior to its termination.

Tenaris entered into a contract with Siderar for the supply of steam generated at the power generation facility owned by Tenaris in San Nicolas. Under this contract, Tenaris is required to provide 250 tn/hour of steam, and Siderar has the obligation to take or pay this volume. This outsourcing contract is due to terminate in 2018. In October 2004, Tenaris detected technical problems at its electric power generating facility located in San Nicolas, Argentina during the routine maintenance of the equipment. GE Energy, the generator s manufacturer, assumed the cost of the repairs of the generator, estimated at \$9.0 million. Tenaris recognized a receivable with the manufacturer for the cost of the repairs. Tenaris impaired the value of these assets under Property, Plant and Equipment for \$11.7 million. The reparation of the generating facility was completed by September 2005.

Under a lease agreement entered into in 2000 between Gade Srl (Italy) and Dalmine relating to a building located in Sabbio Bergamasco and used by Dalmine s former subsidiary, Tad Commerciale, Dalmine is obligated to bid in the auction for the purchase of a building owned by Gade for a minimum amount of EUR 8.3 million (\$10.0 million). As of the present, a date for the auction has not been announced.

*Restrictions on the distribution of profits*

As of December 31, 2006, shareholders equity as defined under Luxembourg law and regulations consisted of:

|   |                  |
|---|------------------|
| <b>(all amounts in thousands of U.S. dollars)</b>                           |                  |
| Share capital   | 1,180,537        |
| Legal reserve   | 118,054          |
| Share premium   | 609,733          |
| Retained earnings including net income for the year ended December 31, 2006 | 1,527,096        |
| <b>Total shareholders equity in accordance with Luxembourg law</b>          | <b>3,435,420</b> |

At least 5% of the net income per year as calculated in accordance with Luxembourg law and regulations must be allocated to the creation of a legal reserve equivalent to 10% of share capital. As of December 31, 2006, this reserve is fully allocated and additional allocations to the reserve are not required under Luxembourg law. Dividends can not be paid from this reserve.

Tenaris may pay dividends to the extent that it has distributable retained earnings and distributable reserve calculated in accordance with Luxembourg law and regulations, and providing the compliance of the covenant related to restricted payments stated in Note 28.



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At December 31, 2006, the distributable reserve, including retained earnings and profit for the financial year, of Tenaris under Luxembourg law totalled \$1,527.1 million, as detailed below.

| <b>(all amounts in thousands of U.S. dollars)</b>                  |                  |
|--|------------------|
| Retained earnings at December 31, 2005 under Luxembourg law        | 1,171,738        |
| Dividends received   | 566,831          |
| Other income and expenses for the year ended December 31, 2006     | (7,240)          |
| Dividends paid   | (204,233)        |
| <b>Retained earnings at December 31, 2006 under Luxembourg law</b> | <b>1,527,096</b> |

**27 Ordinary shares and share premium**

|                                     | <b>Number of ordinary shares</b> |                      |
|-------------------------------------|----------------------------------|----------------------|
|                                     | <b>2006</b>                      | <b>2005</b>          |
| <b>At January 1 and December 31</b> | <b>1,180,536,830</b>             | <b>1,180,536,830</b> |

The total of issued and outstanding ordinary shares as of December 31, 2006 is 1,180,536,830 with a par value of \$1.00 per share with one vote each.

**28 Business combinations and other acquisitions**

*(a) Acquisition of Maverick Tube Corporation (Maverick)*

On October 5, 2006, Tenaris completed the acquisition of Maverick, pursuant to which Maverick was merged with and into a wholly owned subsidiary of Tenaris. On that date, Tenaris paid \$65 per share in cash for each issued and outstanding share of Maverick's common stock. The value of the transaction at the acquisition date was \$3,160 million, including Maverick's financial debt.

With operations in the United States, Canada and Colombia, Maverick is a producer of oil country tubular goods (OCTG), line pipe and coiled tubing for use in oil and natural gas wells and other applications, also producing welded pipes for electrical conduits. Maverick has a combined annual capacity of two million short tons of steel pipes with a size range from one-quarter inch to 16 inches. In 2005, Maverick reported net revenues of approximately \$1.8 billion, of which 82% were from its energy products division.

To finance the acquisition and the payment of related obligations, Tenaris and some of its subsidiaries entered into syndicated loan facilities in an aggregate of \$2.7 billion; the balance was met from cash on hand. In connection with the financing of the Maverick acquisition 75% of the issued and outstanding shares of Maverick were pledged. Immediately upon each payment or prepayment under the Tenaris loan agreement, the number of shares subject to the pledge shall be reduced by the percentage by which the aggregate outstanding principal amount of the loans under such agreement is reduced by operation of such payment or prepayment until the aggregate outstanding principal amount of such loans is

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less than or equal to \$ 250 million. In addition, Tamsa and Siderca granted drag-along rights in favor of the lenders under the Tenaris loan agreement with respect to the remaining 25% of the issued and outstanding shares of capital stock of Maverick.

Goodwill arising on the acquisition of Maverick, \$1,113 million is the difference between the acquisition price and the fair value on the acquisition date of the identifiable tangible and intangible assets and liabilities determined mainly by independent valuation. This goodwill reflects the opportunity for Tenaris to increase its presence in North America, primarily in the OCTG market.

Tenaris began consolidating Maverick's balance sheet and results of operations in the fourth quarter of 2006.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**28 Business combinations and other acquisitions (Cont d.)***(b) Acquisition of a steel pipe business in Argentina*

On January 31, 2006, Siat S.A., a subsidiary of Tenaris, completed its acquisition of the welded pipe assets and facilities located in Villa Constitución, province of Santa Fe, Argentina, belonging to Industria Argentina de Acero, S.A. ( Acindar ) for \$29.3 million. The facilities acquired have an annual capacity of 80,000 tons of welded pipes.

*(c) Capitalization of Convertible Debt of Consorcio Siderurgia Amazonia, Ltd. ( Amazonia ) and Exchange of Interests in Amazonia and Ylopa Serviços de Consultadoria Lda. ( Ylopa ) for shares of Ternium S.A. ( Ternium )*

On February 3, 2005, Ylopa exercised its option to convert the convertible debt it held in Amazonia into common stock. In connection with this conversion, Tenaris recognized a gain of \$83.1 million in 2004. As a result, Tenaris' ownership stake in Amazonia increased from 14.5% to 21.2%, and its indirect ownership in Sidor C.A. ( Sidor ) increased from 8.7% to 12.6%.

On September 9, 2005, the Company exchanged its interests in Amazonia and Ylopa, for 209,460,856 shares in Ternium, a newly-formed subsidiary of San Faustin N.V. (a Netherlands Antilles corporation and the controlling shareholder of Tenaris) to consolidate its Latin American holdings in flat and long steel producers Siderar S.A.I.C., Sidor C.A. and Hylsamex, S.A de C.V. As a result of the exchange, which was carried out based on fair values as determined by an internationally recognized investment bank engaged for this purpose, Tenaris obtained an ownership interest of approximately 17.9% in Ternium.

Subsequently, on October 27, 2005, Usinas Siderurgicas de Minas Gerais S.A. ( Usiminas ) exchanged its interests in Amazonia, Ylopa and Siderar S.A.I.C., plus additional consideration of approximately \$114.1 million provided as a convertible loan, for an equity stake in Ternium. As a result of this transaction, at December 31, 2005, Tenaris' ownership stake in Ternium was reduced to 15.0% of Ternium's outstanding common stock. As this was an equity transaction in Ternium, the effect of \$2.7 million at Tenaris' percentage of ownership was recognized in Other reserves in equity.

Because the exchange of Tenaris' holdings in Amazonia and Ylopa for shares in Ternium was a transaction between companies under common control, Tenaris initially recorded its ownership interest in Ternium at the carrying value of the investments exchanged. At the transaction date, the carrying value of Amazonia and Ylopa was \$229.7 million while Tenaris' proportional ownership in the equity of Ternium at September 30, 2005 amounted to \$252.3 million. The difference of \$22.6 million between the carrying value of Amazonia and Ylopa and Tenaris' proportional ownership in the equity of Ternium will remain in the future. As a result of this accounting treatment, Tenaris reported value of its investment in Ternium will not reflect its proportional ownership of Ternium's net equity position.

In addition, in August 2005, Tenaris extended to Ternium two subordinated convertible loans consisting of principal amount of \$39.7 million. The principal amount of these loans at the date issued corresponded to the amount of certain distributions received from Amazonia during the second and third quarters of 2005 in connection with Ternium's participation in Amazonia's financial debt restructuring in 2003. At the date of Ternium's initial public offering ( IPO ), the loans totaled approximately \$40.5 million, including accrued interest.

Until September 30, 2005, Tenaris recognized its proportional earnings in Amazonia and Ylopa, which amounted to \$26.5 million. As from the quarter ended December 31, 2005, Tenaris recognized earnings from its investment in Ternium to the extent of its proportional ownership in Ternium.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**28 Business combinations and other acquisitions (Cont d.)**

*(c) Capitalization of Convertible Debt of Consorcio Siderurgia Amazonia, Ltd. ( Amazonia ) and Exchange of Interests in Amazonia and Ylopa Serviços de Consultadoria Lda. ( Ylopa ) for shares of Ternium S.A. ( Ternium ) (Cont d.)*

On February 6, 2006, Ternium completed its IPO, issuing an additional 248,447,200 shares (equivalent to 24,844,720 ADS) at a price of \$2.00 per share, or \$20.00 per ADS. Tenaris received an additional 20,252,338 shares upon the mandatory conversion of its loans to Ternium. In addition to the shares issued to Tenaris, Ternium issued shares to other shareholders corresponding to their mandatory convertible loans. On February 23, 2006, the underwriters of Ternium's IPO exercised an over allotment option under which Ternium issued an additional 37,267,080 shares (equivalent to 3,726,708 ADS). As a result of the IPO and the conversion of loans, as of February 6, 2006, Tenaris' ownership stake in Ternium amounted to 11.46%. The effect of these transactions resulted in an additional increase of the Company's proportional ownership in Ternium's equity of approximately \$26.7 million, which Tenaris recognized in Other Reserves in equity.

At December 31, 2006, the closing price of Ternium shares as quoted on the New York Stock Exchange was \$29.54 per ADS, giving Tenaris ownership stake a market value of approximately \$679 million. At December 31, 2006, the carrying value of Tenaris's ownership stake in Ternium was approximately \$408 million.

*(d) Acquisition of S.C. Donasid S.A. ( Donasid )*

On May 4, 2005, Tenaris completed the acquisition of 97% of the equity in S.C. Donasid S.A., a Romanian steel producer, for approximately \$47.9 million in cash and assumed liabilities. The shares of Siprofer A.G. and Donasid Service S.r.l. were also acquired as part of this transaction.

*(e) Minority Interest*

During the year ended December 31, 2006, additional shares of Silcotub and Dalmine were acquired from minority shareholders for approximately \$11.2 million.

**The assets and liabilities arising from the acquisitions are as follows:**

|  | <b>Maverick (*)</b> | <b>Others</b> | <b>Total 2006</b> | <b>Total 2005</b> |
|--|---------------------|---------------|-------------------|-------------------|
| Other assets and liabilities (net)             | (698,163)           | 5,207         | (692,956)         | (41,755)          |
| Property, plant and equipment                  | 438,046             | 22,891        | 460,937           | 67,211            |
| Customer relationships                         | 1,493,800           |               | 1,493,800         |                   |
| Goodwill                                       | 1,112,885           | 1,402         | 1,114,287         | 769               |
| Net assets acquired                            | 2,346,568           | 29,500        | 2,376,068         | 26,225            |
| Minority interest                              |                     | 11,181        | 11,181            | (527)             |
| Sub-total                                      | 2,346,568           | 40,681        | 2,387,249         | 25,698            |
| Cash-acquired                                  | 70,660              |               | 70,660            |                   |
| Purchase consideration                         | 2,417,228           | 40,681        | 2,457,909         | 25,698            |
| Liabilities paid as part of purchase agreement | 743,219             |               | 743,219           | 22,594            |
| <b>Total disbursement</b>                      | <b>3,160,447</b>    | <b>40,681</b> | <b>3,201,128</b>  | <b>48,292</b>     |

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(\*) Includes costs directly attributable to the acquisition.

Net cash consideration (total disbursement less cash acquired and common stock issued in acquisition of minority interest) amounted to \$ 48,292 at December 31, 2005.

The businesses acquired in 2006 contributed revenues of \$432.0 million and net income of \$14.5 million to Tenaris (not including the financial cost related to the operation recorded in other subsidiaries different from Maverick). Businesses acquired in 2005 did not materially contribute to the Company's revenue and income.



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Had the Maverick transaction been consummated on January 1, 2006, then unaudited pro forma 2006 twelve month Tenaris net sales and net income on continuing operations would have been approximately \$9.3 billion and \$2.0 billion, respectively. These pro forma results were prepared based on public information and unaudited accounting records maintained under USGAAP prior to acquisition and adjusted by depreciation and amortization of tangible and intangible assets and interest expense of the borrowing incurred for the acquisition (\$2.7 billion). Carrying amounts of assets, liabilities and contingent liabilities in Maverick's books, determined in accordance with IFRSs, immediately before the combination are not disclosed separately, as Maverick did not report IFRS information.

**Subsequent event: Hydril Company ( Hydril )**

On February 12, 2007, Tenaris announced that it has entered into a definitive merger agreement to acquire Hydril for \$97 per share of Hydril's common stock and \$97 per share of Hydril's Class B common stock, payable in cash.

Tenaris will finance the acquisition through a combination of cash on hand and debt, for which bank commitments have been secured.

The agreement is subject to the receipt of clearance from U.S. antitrust authorities, majority approval of Hydril's shareholders and other customary conditions and is expected to close in the second quarter 2007.

Hydril is a North American manufacturer of premium connections and pressure control products for oil and gas drilling and production. For 2006, Hydril reported revenues of \$503 million, operating income of \$132.2 million and net income of \$91.3 million under US GAAP.

**29 Cash flow disclosures**

| (i) Changes in working capital             | Year ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2006                    | 2005             | 2004             |
| Inventories                                | (455,567)               | (101,143)        | (411,045)        |
| Receivables and prepayments                | (181,878)               | 1,513            | (82,845)         |
| Trade receivables                          | (226,678)               | (387,240)        | (271,225)        |
| Other liabilities                          | 7,605                   | 34,526           | (37,443)         |
| Customer advances                          | 236,446                 | (14,156)         | 72,678           |
| Trade payables                             | 150,555                 | 32,561           | 108,693          |
|  | <b>(469,517)</b>        | <b>(433,939)</b> | <b>(621,187)</b> |
| (ii) Income tax accruals less payments     |                         |                  |                  |
| Tax accrued                                | 873,967                 | 568,753          | 220,376          |
| Taxes paid                                 | (817,131)               | (419,266)        | (175,717)        |
|  | <b>56,836</b>           | <b>149,487</b>   | <b>44,659</b>    |
| (iii) Interest accruals less payments, net |                         |                  |                  |
| Interest accrued                           | 32,237                  | 29,236           | 32,683           |
| Interest received                          | 11,150                  | 17,227           | 11,986           |
| Interest paid                              | (21,478)                | (44,544)         | (27,696)         |

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|      |                           |                  |                |                |
|------|---------------------------|------------------|----------------|----------------|
|      |                           | <b>21,909</b>    | <b>1,919</b>   | <b>16,973</b>  |
| (iv) | Cash and cash equivalents |                  |                |                |
|      | Cash and bank deposits    | 1,372,329        | 707,356        | 311,579        |
|      | Bank overdrafts           | (7,300)          | (24,717)       | (4,256)        |
|      | Restricted bank deposits  | (21)             | (2,048)        | (13,500)       |
|      |                           | <b>1,365,008</b> | <b>680,591</b> | <b>293,823</b> |

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**30 Discontinued operations***Sale of a 75% interest in Dalmine Energie*

On December 1, 2006, Tenaris completed for \$58.9 million the sale of a 75% participation of Dalmine Energie, its Italian supply business, to E.ON Sales and Trading GmbH, a wholly owned subsidiary of E.ON Energie AG ( E.ON ) and an indirect subsidiary of E.ON AG. Following consummation of the sale, Tenaris maintains a 25% interest in Dalmine Energie. As a result of this transaction, Tenaris has de-consolidated Dalmine Energie and recognized a \$40.0 million gain.

As per the sale agreement, Tenaris has an irrevocable option to sell to E.ON, at any time during the one year exercise period (in two years from the date of the sale agreement), its 25% remaining interest in Dalmine Energie for a purchase price in cash of EUR 13.0 million plus interests. Also, E.ON has an irrevocable option to purchase from Tenaris, at any time during the one year exercise period (in two years from the date of the sale agreement), Tenaris 25% remaining interest in Dalmine Energie for a purchase price in cash of EUR 17.5 million plus interests and adjustments. The fair value of these options at December 31, 2006 is not material.

Analysis of the result of discontinued operations:

(all amounts in thousands of U.S. dollars, unless otherwise stated)

|  | Year ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2006 (a)                | 2005          | 2004          |
| Net sales  | 503,051                 | 526,406       | 417,870       |
| Cost of sales  | (486,312)               | (513,393)     | (398,462)     |
| <b>Gross profit</b>  | <b>16,739</b>           | <b>13,013</b> | <b>19,408</b> |
| Selling, general and administrative expenses                                   | (8,025)                 | (10,259)      | (11,223)      |
| Other operating income (expenses), net   | 2,469                   | (220)         | (325)         |
| <b>Operating income</b>  | <b>11,183</b>           | <b>2,534</b>  | <b>7,860</b>  |
| Financial income (expenses), net   | 16                      | (1,152)       | (577)         |
| <b>Income before equity in earnings of associated companies and income tax</b> | <b>11,199</b>           | <b>1,382</b>  | <b>7,283</b>  |
| Equity in earnings of associated companies                                     |                         |               | (104)         |
| Gain on disposal of subsidiary   | 39,985                  |               |               |
| <b>Income before income tax</b>  | <b>51,184</b>           | <b>1,382</b>  | <b>7,179</b>  |
| Income tax   | (4,004)                 | (1,385)       | (3,150)       |
| <b>Income for the year from discontinued operations</b>                        | <b>47,180</b>           | <b>(3)</b>    | <b>4,029</b>  |

(a) Includes the results for the eleven month period ended November 30, 2006. The result for the one month period ended December 31, 2006 is included in Equity in earnings of associated companies in the Consolidated Income statement. Cash of discontinued operations increased by \$2.3 million and decrease by \$1.0 million in 2006 and 2005 respectively mainly from operating activities.

**31 Related party transactions**

The Company is controlled by San Faustin N.V., a Netherlands Antilles corporation, which owns 60.4% of the Company's outstanding shares, either directly or through its wholly-owned subsidiary I.I.I. Industrial Investments Inc., a Cayman Islands corporation. Tenaris' directors and executive officers as a group own 0.2% of the Company's outstanding shares, while the remaining 39.4% is publicly traded. The ultimate

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controlling entity of the Company is Rocca & Partners S.A., a British Virgin Islands corporation.

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**31 Related party transactions (Cont d.)**

The following transactions were carried out with related parties:

**At December 31, 2006**

|  | Associated (1) | Other          | Total          |
|--|----------------|----------------|----------------|
| <b>(i) Transactions</b>                    |                |                |                |
| <b>(a) Sales of goods and services</b>     |                |                |                |
| Sales of goods                             | 120,890        | 56,524         | 177,414        |
| Sales of services                          | 18,852         | 3,664          | 22,516         |
|  | <b>139,742</b> | <b>60,188</b>  | <b>199,930</b> |
| <b>(b) Purchases of goods and services</b> |                |                |                |
| Purchases of goods                         | 103,003        | 33,930         | 136,933        |
| Purchases of services                      | 17,168         | 80,485         | 97,653         |
|  | <b>120,171</b> | <b>114,415</b> | <b>234,586</b> |

**At December 31, 2005**

|  | Associated (2) | Other         | Total          |
|--|----------------|---------------|----------------|
| <b>(i) Transactions</b>                    |                |               |                |
| <b>(a) Sales of goods and services</b>     |                |               |                |
| Sales of goods                             | 104,054        | 75,948        | 180,002        |
| Sales of services                          | 7,499          | 7,830         | 15,329         |
|  | <b>111,553</b> | <b>83,778</b> | <b>195,331</b> |
| <b>(b) Purchases of goods and services</b> |                |               |                |
| Purchases of goods                         | 67,814         | 33,949        | 101,763        |
| Purchases of services                      | 15,773         | 63,220        | 78,993         |
|  | <b>83,587</b>  | <b>97,169</b> | <b>180,756</b> |

**At December 31, 2004**

|  | Associated (3) | Other         | Total          |
|--|----------------|---------------|----------------|
| <b>(i) Transactions</b>                    |                |               |                |
| <b>(a) Sales of goods and services</b>     |                |               |                |
| Sales of goods                             | 26,088         | 46,844        | 72,932         |
| Sales of services                          | 15,365         | 9,618         | 24,983         |
|  | <b>41,453</b>  | <b>56,462</b> | <b>97,915</b>  |
| <b>(b) Purchases of goods and services</b> |                |               |                |
| Purchases of goods                         | 30,648         | 32,484        | 63,132         |
| Purchases of services                      | 7,526          | 51,305        | 58,831         |
|  | <b>38,174</b>  | <b>83,789</b> | <b>121,963</b> |

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At December 31, 2006

|   | Associated (4)  | Other        | Total           |
|---|-----------------|--------------|-----------------|
| <b>(ii) Year-end balances</b>                               |                 |              |                 |
| <b>(a) Arising to sales / purchases of goods / services</b> |                 |              |                 |
| Receivables from related parties                            | 25,400          | 14,429       | 39,829          |
| Payables to related parties                                 | (37,920)        | (13,388)     | (51,308)        |
|   | <b>(12,520)</b> | <b>1,041</b> | <b>(11,479)</b> |
| <b>(b) Other balances</b>                                   |                 |              |                 |
| Receivables   | 2,079           |              | 2,079           |
| <b>(c) Financial debt</b>                                   |                 |              |                 |
| Borrowings (6)  | (60,101)        |              | (60,101)        |

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**31 Related party transactions (Cont d.)****At December 31, 2005**

|   | Associated (5) | Other        | Total         |
|---|----------------|--------------|---------------|
| <b>(ii) Year-end balances</b>                                 |                |              |               |
| <b>(a) Arising from sales / purchases of goods / services</b> |                |              |               |
| Receivables from related parties                              | 30,988         | 15,228       | 46,216        |
| Payables to related parties                                   | (21,034)       | (8,413)      | (29,447)      |
|   | <b>9,954</b>   | <b>6,815</b> | <b>16,769</b> |
| <b>(b) Other balances</b>                                     | 42,437         |              | 42,437        |
| <b>(c) Financial debt</b>                                     |                |              |               |
| Borrowings (7)  | (54,801)       |              | (54,801)      |

**At December 31, 2004**

|   | Associated (3) | Other          | Total          |
|---|----------------|----------------|----------------|
| <b>(ii) Year-end balances</b>                                 |                |                |                |
| <b>(a) arising from sales / purchases of goods / services</b> |                |                |                |
| Receivables from related parties                              | 25,593         | 27,070         | 52,663         |
| Payables to related parties                                   | (4,914)        | (12,487)       | (17,401)       |
|   | <b>20,679</b>  | <b>14,583</b>  | <b>35,262</b>  |
| <b>(b) Cash and cash equivalents</b>                          |                |                |                |
| Time deposits   |                | 6              | 6              |
| <b>(c) Other balances</b>                                     |                |                |                |
| Trust Fund  |                | 119,666        | 119,666        |
| Convertible debt instruments - Ylopa                          | 121,955        |                | 121,955        |
|   | <b>121,955</b> | <b>119,666</b> | <b>241,621</b> |
| <b>(d) Financial debt</b>                                     |                |                |                |
| Borrowings (8)  | (51,457)       | (5,449)        | (56,906)       |

- (1) Includes Ternium S.A. and its subsidiaries ( Ternium ), Condisid C.A. ( Condisid ), Finma S.A.I.F ( Finma )(as from September 2006), Lomond Holdings B.V. group ( Lomond ) (as from October 2006) and Dalmine Energie S.p.A. ( Dalmine Energie ) (as from December 2006).
- (2) Includes: Condisid, Ylopa, Amazonia and Sidor up to September 30, 2005. As from October 1, 2005 it includes Ternium and Condisid.
- (3) Includes: Condisid, Ylopa, Amazonia and Sidor.
- (4) Includes: Condisid, Ternium, Finma, Lomond and Dalmine Energie.
- (5) Includes Ternium and Condisid.
- (6) Includes convertible loan from Sidor to Materiales Siderurgicos S.A. ( Matesi ) of \$58.4 million at December 31, 2006.
- (7) Includes convertible loan from Sidor C.A. to Matesi at December 31, 2005.
- (8) Includes convertible loan from Sidor C.A. to Matesi of \$51.5 million at December 31, 2004.

**(i) Officers and directors compensation**

The aggregate compensation of the directors and executive officers earned during 2006 and 2005 amounts to \$16.0 million and \$14.3 million respectively.



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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**32 Principal subsidiaries**

The following is a list of Tenaris subsidiaries and its direct and indirect percentage of ownership of each controlled company at December 31, 2006, 2005 and 2004.

| Company  | Country of Organization | Main activity   | Percentage of ownership at December 31, |      |      |
|--|-------------------------|---|---|------|------|
|  |                         |   | 2006                                    | 2005 | 2004 |
| Algoma Tubes Inc.  | Canada                  | Manufacturing of seamless steel pipes                 | 100%                                    | 100% | 100% |
| Autoabastecedora de Gas Natural Bruno Pagliai S.A. de C.V. (b) | Mexico                  | Trading of energy                                     | 100%                                    |      |      |
| Colmena Conduit Ltda (b) (l)                                   | Colombia                | Manufacturing of welded steel pipes                   | 100%                                    |      |      |
| Confab Industrial S.A. and subsidiaries (c)                    | Brazil                  | Manufacturing of welded steel pipes and capital goods | 39%                                     | 39%  | 39%  |
| Dalmine Energie S.p.A. (h) (j)                                 | Italy                   | Trading of energy                                     |   | 100% | 100% |
| Dalmine Holding B.V. and subsidiaries                          | Netherlands             | Holding company                                       | 99%                                     | 99%  | 99%  |
| Dalmine S.p.A.   | Italy                   | Manufacturing of seamless steel pipes                 | 99%                                     | 99%  | 99%  |
| Energy Network S.R.L. (a)                                      | Romania                 | Trading of energy                                     | 95%                                     | 100% |      |
| Exiros S.A.  | Uruguay                 | Procurement services for industrial companies         | 100%                                    | 100% | 100% |
| Information Systems and Technologies N.V.                      | Netherlands             | Software development and maintenance                  | 75%                                     | 75%  | 75%  |
| Information Systems and Technologies S.A. (d)                  | Argentina               | Software development and maintenance                  | 100%                                    | 100% | 100% |
| Inmobiliaria Tamsa S.A. de C.V.                                | Mexico                  | Leasing of real estate                                | 100%                                    | 100% | 100% |
| Insirger S.A. and subsidiaries (g)                             | Argentina               | Electric power generation                             |   |      | 100% |
| Intermetal Com SRL   | Romania                 | Marketing of Scrap and other raw materials            | 100%                                    | 100% | 100% |
| Inversiones Berna S.A. (a)                                     | Chile                   | Financial company                                     | 100%                                    | 100% |      |
| Inversiones Lucerna S.A. (a)                                   | Chile                   | Financial company                                     | 82%                                     | 82%  |      |
| Invertub S.A. and subsidiaries (g)                             | Argentina               | Holding Company                                       |   |      | 100% |
| Lomond Holdings B.V. and subsidiaries (k)                      | Netherlands             | Procurement services for industrial companies         |   | 100% | 100% |
| Matesi, Materiales Siderurgicos S.A. (a)                       | Venezuela               | Production of hot briquetted iron (HBI)               | 50%                                     | 50%  | 50%  |
| Maverick Tube Corporation and subsidiaries (b)                 | U.S.A.                  | Manufacturing of welded steel pipes                   | 100%                                    |      |      |
| Maverick Tube, L.P. (b) (l)                                    | U.S.A.                  | Manufacturing of welded steel pipes                   | 100%                                    |      |      |

**Table of Contents***Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004***32 Principal subsidiaries (Cont d.)**

| Company   | Country of Organization | Main activity   | Percentage of ownership at December 31, |      |      |
|---|-------------------------|---|---|------|------|
|   |                         |   | 2006                                    | 2005 | 2004 |
| Metalcentro S.A. (i)                              | Argentina               | Manufacturing of pipe-end protectors and lateral impact tubes |   | 100% | 100% |
| Metalmecánica S.A.                                | Argentina               | Manufacturing of steel products for oil extraction            | 100%                                    | 100% | 100% |
| NKK Tubes K.K.                                    | Japan                   | Manufacturing of seamless steel pipes                         | 51%                                     | 51%  | 51%  |
| Operadora Eléctrica S.A. (e)                      | Argentina               | Electric power generation                                     | 100%                                    | 100% | 100% |
| Quality Tubes (UK) Ltd. (h)                       | United Kingdom          | Marketing of steel products                                   | 100%                                    | 100% | 100% |
| Precision Tube Technology, L.P. (b) (l)           | U.S.A.                  | Manufacturing of welded steel pipes                           | 100%                                    |      |      |
| Prudential Steel Ltd. (b) (l)                     | Canada                  | Manufacturing of welded steel pipes                           | 100%                                    |      |      |
| S.C. Donasid (a)                                  | Romania                 | Manufacturing of steel products                               | 99%                                     | 99%  |      |
| S.C. Silcotub S.A.                                | Romania                 | Manufacturing of seamless steel pipes                         | 97%                                     | 85%  | 85%  |
| Seacat, L.P. (b) (l)                              | U.S.A.                  | Manufacturing of welded steel pipes                           | 100%                                    |      |      |
| Scrapservice S.A.                                 | Argentina               | Processing of scrap   | 75%                                     | 75%  | 75%  |
| Servicios Generales TenarisTamsa S.A. de C.V. (f) | Mexico                  | Handling and maintenance of steel pipes                       | 100%                                    | 100% | 100% |
| Siat S.A.   | Argentina               | Manufacturing of welded steel pipes                           | 82%                                     | 82%  | 82%  |
| Siderca International A.p.S.                      | Denmark                 | Holding company   | 100%                                    | 100% | 100% |
| Siderca S.A.I.C.                                  | Argentina               | Manufacturing of seamless steel pipes                         | 100%                                    | 100% | 100% |
| Siderestiba S.A. (m)                              | Argentina               | Logistics   |   | 99%  | 99%  |
| Sidtam Limited                                    | B.V.I.                  | Holding company   | 100%                                    | 100% | 100% |
| Siprofer A.G. (a)                                 | Switzerland             | Holding company   | 100%                                    | 100% |      |
| SO.PAR.FI Dalmine Holding S.A.                    | Luxembourg              | Holding company   | 99%                                     | 99%  | 99%  |
| Sociedad Industrial Puntana S.A.                  | Argentina               | Manufacturing of steel products                               | 100%                                    | 100% | 100% |
| Socominter S.A.                                   | Venezuela               | Marketing of steel products                                   | 100%                                    | 100% | 100% |
| Socominter Ltda.                                  | Chile                   | Marketing of steel products                                   | 100%                                    | 100% | 100% |
| Talta Trading e Marketing Lda.                    | Madeira                 | Holding Company   | 100%                                    | 100% | 100% |

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**32 Principal subsidiaries (Cont d.)**

| Company   | Country of Organization | Main activity   | Percentage of ownership at December 31, |      |      |
|---|-------------------------|---|---|------|------|
|   |                         |   | 2006                                    | 2005 | 2004 |
| Tandel LLC and subsidiaries (f)                                       | Mexico                  | Holding company   | 100%                                    | 100% | 100% |
| Tamser S.A. de C.V. (f)   | Mexico                  | Marketing of scrap  | 100%                                    | 100% | 100% |
| Tamsider LLC  | U.S.A.                  | Holding company   | 100%                                    | 100% | 100% |
| Tamsider S.A. de C.V. and subsidiaries (g)                            | Mexico                  | Promotion and organization of steel-related companies and marketing of steel products |   |      | 100% |
| Tamtrade S.A.de C.V. (g)  | Mexico                  | Marketing of steel products   |   |      | 100% |
| Techint Investment Netherlands B.V.                                   | Netherlands             | Holding company   | 100%                                    | 100% | 100% |
| Tenaris Autopartes S.A. de C.V.                                       | México                  | Manufacturing of supplies for the automotive industry                                 | 100%                                    | 100% | 100% |
| Tenaris Confab Hastes de Bombeio S.A.                                 | Brazil                  | Manufacturing of steel products for oil extraction                                    | 70%                                     | 70%  | 70%  |
| Tenaris Connections A.G. and subsidiaries                             | Liechtenstein           | Ownership and licensing of steel technology   | 100%                                    | 100% | 100% |
| Tenaris Financial Services S.A.                                       | Uruguay                 | Financial Services  | 100%                                    | 100% | 100% |
| Tenaris Fittings S.A. de C.V. (previously Empresas Riga S.A. de C.V.) | Mexico                  | Manufacturing of welded fittings for seamless steel pipes                             | 100%                                    | 100% | 100% |
| Tenaris Global Services B.V.  | Netherlands             | Sales agent of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services (B.V.I.) Ltd.                                 | B.V.I.                  | Holding company   | 100%                                    | 100% | 100% |
| Tenaris Global Services (Canada) Inc.                                 | Canada                  | Marketing of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services de Bolivia S.R.L.                             | Bolivia                 | Marketing of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services Ecuador S.A.                                  | Ecuador                 | Marketing of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services (Egypt) Ltd. (a)                              | Egypt                   | Marketing of steel products   | 100%                                    | 100% |      |
| Tenaris Global Services Far East Pte. Ltd.                            | Singapore               | Marketing of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services (Japan) K.K.                                  | Japan                   | Marketing of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services (Kazakhstan ) LLP                             | Kazakhstan              | Marketing of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services Korea   | Korea                   | Marketing of steel products   | 100%                                    | 100% | 100% |
| Tenaris Global Services LLC   | U.S.A.                  | Sales agent of steel products   | 100%                                    | 100% | 100% |

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**32 Principal subsidiaries (Cont d.)**

| Company                                      | Country of Organization | Main activity                                   | Percentage of ownership at December 31, |      |      |
|--|-------------------------|---|---|------|------|
|  |                         |   | 2006                                    | 2005 | 2004 |
| Tenaris Global Services Nigeria Ltd.         | Nigeria                 | Marketing of steel products                     | 100%                                    | 100% | 100% |
| Tenaris Global Services Norway AS            | Norway                  | Marketing of steel products                     | 100%                                    | 100% | 100% |
| Tenaris Global Services (Panama) S.A.        | Panama                  | Marketing of steel products                     | 100%                                    | 100% | 100% |
| Tenaris Global Services S.A.                 | Uruguay                 | Holding company and marketing of steel products | 100%                                    | 100% | 100% |
| Tenaris Global Services (UK) Ltd.            | United Kingdom          | Marketing of steel products                     | 100%                                    | 100% | 100% |
| Tenaris Global Services (U.S.A.) Corporation | U.S.A.                  | Marketing of steel products                     | 100%                                    | 100% | 100% |
| Tenaris Investments Ltd.                     | Ireland                 | Holding company                                 | 100%                                    | 100% | 100% |
| Tenaris Qingdao Steel Pipes Ltd. (a)         | China                   | Manufacturing of steel pipes and connections    | 100%                                    | 100% |      |
| Tenaris Supply Chain Services S.A. (b)       | Argentina               | Data administration services                    | 98%                                     |      |      |
| Tenaris West Africa Ltd.                     | United Kingdom          | Finishing of steel pipes                        | 100%                                    | 100% | 100% |
| Texas Pipe Threaders Co.                     | U.S.A.                  | Finishing and marketing of steel pipes          | 100%                                    | 100% | 100% |
| Tubman Holdings (Gibraltar) LLP              | Gibraltar               | Holding company                                 | 100%                                    | 100% | 100% |
| Tubman International Ltd.                    | Gibraltar               | Holding company                                 | 100%                                    | 100% | 100% |
| Tubos de Acero de México S.A.                | Mexico                  | Manufacturing of seamless steel pipes           | 100%                                    | 100% | 100% |
| Tubos de Acero de Venezuela S.A.             | Venezuela               | Manufacturing of seamless steel pipes           | 70%                                     | 70%  | 70%  |
| Tubos del Caribe Ltda. (b) (l)               | Colombia                | Manufacturing of welded steel pipes             | 100%                                    |      |      |

(a) Incorporated or acquired during 2005.

(b) Incorporated or acquired during 2006.

(c) Tenaris holds 99% of the voting shares of Confab Industrial S.A. and has, directly or indirectly, the majority of voting rights in all of its subsidiaries.

(d) Included in December 2004 as Invertub S.A. and subsidiaries.

(e) Included in December 2004 as Insirger S.A. and subsidiaries.

(f) Included in December 2004 as Tamsider S.A. de C.V. and subsidiaries.

(g) Merged during 2005.

(h) Included in December 2004 as Dalmine Holding B.V. and subsidiaries.

(i) Merged during 2006.

(j) Tenaris sold 75% of Dalmine Energie S.p.A. during 2006.

(k) Tenaris sold 50% of Lomond Holdings B.V. during 2006 to a subsidiary of Ternium.

(l) Subsidiary of Maverick Tube Corporation.

(m) Sold during 2006.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**33 Reconciliation of net income and shareholders' equity to U.S. GAAP**

The principal differences between IFRS and U.S. GAAP as they relate to the Company are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

|  | Year ended December 31, |                  |                |
|--|-------------------------|------------------|----------------|
|  | 2006                    | 2005             | 2004           |
| Net income attributable to equity holders of the Company in accordance with IFRS | 1,945,314               | 1,277,547        | 784,703        |
| U.S. GAAP adjustments – income (expense)   |                         |                  |                |
| Deferred income tax (1)  | (4,486)                 | (5,115)          | (8,682)        |
| Equity in investments in associated companies (2)                                | 5,858                   | 10,531           | (55,026)       |
| Pension benefits – unrecognized prior service costs (4)                          | 277                     | (415)            | (74)           |
| Changes in fair value of financial assets (5)                                    |                         | 4,023            | (885)          |
| Goodwill amortization (7)  |                         |                  | 9,023          |
| Effect of adopting IFRS 3 – negative goodwill (8)                                | 10,184                  | 8,687            |                |
| Cost of exchange offer – amortization (9)  |                         |                  | 1,060          |
| Minority interest in above reconciling items                                     | 169                     | 207              | 220            |
| <b>Net income in accordance with U.S. GAAP</b>                                   | <b>1,957,316</b>        | <b>1,295,465</b> | <b>730,339</b> |
| Weighted average number of shares outstanding – Note 9 (thousands)               | 1,180,537               | 1,180,537        | 1,180,507      |
| <b>Consolidated earnings per share in accordance with U.S. GAAP</b>              | <b>1.66</b>             | <b>1.10</b>      | <b>0.62</b>    |

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Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

**33 Reconciliation of net income and shareholders' equity to U.S. GAAP (Cont'd.)**

|  | December 31, |           |
|--|--------------|-----------|
|  | 2006         | 2005      |
| Shareholders' equity in accordance with IFRS   | 5,338,619    | 3,507,802 |
| U.S. GAAP adjustments - increase (decrease):   |              |           |
| Deferred income tax (1)  | 49,452       | 52,994    |
| Equity in investments in associated companies (2)                                    | (27,530)     | (34,362)  |
| Exchange of shares and conversion of debt in investments in associated companies (3) | 13,196       | (3,938)   |
| Pension benefits - unrecognized prior service costs (4)                              |              | 2,420     |
| Pension benefits - effect of adopting SFAS 158 (4)                                   | (3,113)      |           |
| Goodwill impairment (6)  | (21,628)     | (21,628)  |
| Goodwill amortization (7)  | 23,545       | 23,545    |
| Effect of adopting IFRS 3 - negative goodwill (8)                                    | (91,728)     | (98,060)  |
| Cost of the exchange offer - original value (9)                                      | (15,900)     | (15,900)  |
| Cost of the exchange offer - accumulated amortization (9)                            | 2,066        | 2,066     |
| Minority interest in above reconciling items   | (1,177)      | (1,346)   |
| Shareholders' equity in accordance with U.S. GAAP                                    | 5,265,802    | 3,413,593 |

Changes in shareholders' equity under U.S. GAAP are as follows:

|  | Year ended December 31, |           |
|--|-------------------------|-----------|
|  | 2006                    | 2005      |
| Shareholders' equity at the beginning of the year in accordance with U.S. GAAP   | 3,413,593               | 2,488,372 |
| Net income for the year in accordance with U.S. GAAP                             | 1,957,316               | 1,295,465 |
| Foreign currency translation adjustment  | 60,819                  | (15,562)  |
| Exchange of shares and conversion of debt in investments in associated companies |                         | (57,918)  |
| Dilution of investments in Ternium   | 41,095                  | 56,698    |
| Changes in fair value of financial assets  |                         | (4,023)   |
| Dividends paid   | (204,233)               | (349,439) |
| Cumulative effect adjustment due to the adoption of SFAS 158, net of tax         | (4,866)                 |           |
| Changes in fair value of derivative instruments - hedging activities             | 2,078                   |           |
| Shareholders' equity at the end of the year in accordance with U.S. GAAP         | 5,265,802               | 3,413,593 |

*(1) Deferred income tax*

Under IFRS, a temporary difference is originated by the excess of the accounting value of net assets, translated at historical exchange rates, over the taxable base translated using year-end exchange rates. Under U.S. GAAP, no deferred tax is recognized for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates or indexing for tax purposes.

Also, under U.S. GAAP the Company calculated the effect of the other U.S. GAAP adjustments on deferred income taxes.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**33 Reconciliation of net income and shareholders' equity to U.S. GAAP (Cont'd.)**

*(2) Equity in investments in associated companies*

Under both IFRS and U.S. GAAP, investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method. For purposes of this reconciliation, the Company has assessed the impact of U.S. GAAP adjustments on the IFRS financial statements of its equity investees.

*(3) Accounting for exchange of shares and conversion of debt in investments in associated companies*

Under IFRS, the Company accounted for Ternium's shares received in exchange of the Company's holdings in Amazonia and Ylopa at the carrying value of the investments exchanged considering that both the Company and Ternium are companies under common control of San Faustin N.V. Under U.S. GAAP, pursuant to SFAS No. 141 Business Combinations (SFAS No. 141), the Company accounted for the equity interest received at the carrying amount of Ternium at San Faustin N.V. at the day of transfer. The difference between the carrying value of the investments in Amazonia and Ylopa and the value assigned to Ternium's investment at the date of transfer was recognized directly in equity.

Under both IFRS and U.S. GAAP, the Company accounted for the change in interest in Ternium's ownership that resulted from Usiminas exchange and for the change in interest in Ternium's ownership that resulted from the mandatory conversion of its loans in Ternium mentioned in note 28 (d), directly in equity. Additionally, for purposes of this reconciliation, the Company has assessed the impact of U.S. GAAP adjustments on the IFRS financial statements of Ternium.

*(4) Pension benefits*

*Accounting for unrecognized prior service costs in pension plans*

Under IFRS, past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period. Under U.S. GAAP, until the effective date of Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158), past service costs were recognized over the remaining service periods of active employees.

*Effect of adopting SFAS 158*

Under US GAAP, the Company adopted SFAS 158 effective December 31, 2006. SFAS 158 requires a company that sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of its benefit plans in its year-end balance sheet. The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. The company actuarial gains or losses and prior service costs that have not yet been included in net periodic cost as of the end of the year in which the statement is initially applied are recognized as components of the ending balance of accumulated other comprehensive income, net of tax. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented are not restated. Additionally, SFAS 158 requires an employer to measure the funded status of each of its plans as of the date of its year-end balance sheet. This provision becomes effective for Tenaris for its December 31, 2008 year-end. The funded status of Tenaris' pension plans are currently measured as of December 31.

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Consequently at December 31, 2006, the Company recognized a liability for the underfunded status of its defined benefit pension plans and adjusted ending accumulated other comprehensive income, net of tax, for prior service cost and net actuarial loss that have not been recognized as a component of the net periodic pension cost. The incremental effect of applying SFAS 158 on individual line items in the statements of financial position as of December 31, 2006, resulted in an increase in liabilities for pension benefits of \$ 7.8 million, an increase in deferred income tax assets of \$ 2.9 million and a net increase in accumulated other comprehensive income of approximately \$ 4.9 million.

The amounts in accumulated other comprehensive income (loss) that have not yet been recognized as components of net periodic pension cost as of December 31, 2006 are the following:

|                                   |         |
|-----------------------------------|---------|
| Unrecognized prior service cost   | (2,697) |
| Unrecognized net actuarial losses | (5,089) |
|                                   | (7,786) |
| Deferred taxes                    | 2,920   |
|                                   | (4,866) |

*(5) Changes in fair value of financial assets*

Until December 31, 2004, the Company had certain investments in trust funds. Under IFRS, the Company carried these investments at fair value through profit or loss with unrealized gains and losses, if any, included in the statement of income.

Under U.S. GAAP, the Company carried these investments at market value with material unrealized gains and losses, if any, included in Other comprehensive income in accordance with SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities ( SFAS No. 115 ). At December 31, 2005, the Company settled its available-for-sale investments and the unrealized gains recorded within other comprehensive income were reclassified into the statement of income.

*(6) Goodwill impairment*

Under both IFRS and U.S. GAAP the excess of the purchase price over the fair value of net assets acquired in a business combination is recognized as goodwill and capitalized as an intangible asset. Upon the adoption of SFAS No. 142 Goodwill and Other Intangible Assets ( SFAS No. 142 ) the Company recognized an impairment of \$ 17.4 million (net of an accumulated amortization \$ 4.2 million) associated with its seamless tubes segment in Mexico. No impairment has been recognized under IFRS.

The difference in the recognition of an impairment loss over goodwill between IFRS and U.S. GAAP raises a difference in amortization expense for the periods in which amortization of goodwill was required.

*(7) Goodwill amortization*



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Under IFRS, upon the adoption of IFRS 3, as from January 1, 2005 goodwill and intangible assets deemed to have an indefinite useful life are no longer amortized but reviewed for impairment annually. As a result, no amortization expense was recognized under IFRS during 2005.

Under U.S. GAAP, effective January 1, 2002 and in accordance with SFAS No. 142, the Company ceased the goodwill amortization. The balance sheet difference on account of the timing difference between the adoption of SFAS 142 and IFRS 3 is included as a reconciling item.

This adjustment also includes the difference in amortization that derives from goodwill impairment differences described in Note 33 (6).

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**33 Reconciliation of net income and shareholders' equity to U.S. GAAP (Continued)**

*(8) Effect of adopting IFRS 3 - negative goodwill*

Upon the adoption of IFRS 3 and following its transition provisions, accumulated negative goodwill representing the excess of fair value over the purchase price paid in business combinations was derecognized through an adjustment to retained earnings. The derecognition of negative goodwill in this manner resulted in an increase of \$ 110.8 million in the beginning balance of the Company's equity under IFRS at January 1, 2005.

Under U.S. GAAP, the excess of fair value over the purchase price paid in business combinations was used to reduce proportionately the fair values assigned to property, plant and equipment.

The difference in the accounting for negative goodwill between IFRS and U.S. GAAP raises a difference in depreciation expense.

*(9) Cost of the 2002 Exchange Offer*

Under IFRS, direct costs relating to the costs of registering and issuing equity securities as part of a business combination were considered part of the cost of the business acquired resulting in the recognition of additional goodwill.

Under U.S. GAAP, in accordance with SFAS No. 141, costs of registering and issuing equity securities are recognized as a reduction of the fair value of the securities issued.

The difference in the accounting treatment of these costs raises differences in amortization expense. As further explained in (7) above, amortization of goodwill is no longer required under IFRS. Thus, no difference in amortization exists for the year ended December 31, 2006 and 2005.

*(10) Minority interest*

This adjustment represents the effect on minority interest of all the foregoing differences between IFRS and U.S. GAAP.

*(11) Net income*

Under IFRS, net income represents total gain (loss) obtained by the Company in a given period before offsetting the portion attributable to minority shareholders.

Under U.S. GAAP, net income is shown net of the portion of the Company's gain (loss) for the year attributable to minority shareholders. Accordingly, for U.S. GAAP purposes, net income represents the gain (loss) attributable only to majority equity holders.

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**34 Other significant U.S. GAAP disclosure requirements**

The following is a summary of additional financial statement disclosures required under U.S. GAAP:

*(a) Income Taxes*

The tax loss carry-forwards at December 31, 2006, expire as follows:

| <b>Expiration date</b>    | <b>Amount</b> |
|---------------------------|---------------|
| December 31, 2007         | 105           |
| December 31, 2009         | 599           |
| December 31, 2010         | 7             |
| December 31, 2011         | 1,188         |
| Not subject to expiration | 1,735         |
| <b>Total</b>              | <b>3,634</b>  |

*(b) Statement of consolidated comprehensive income under U.S. GAAP*

Tenaris uses SFAS No. 130, Reporting Comprehensive Income, which requires that an enterprise (i) classify items of other comprehensive income (loss) by their nature in a financial statement and (ii) display the accumulated balance of other comprehensive income (loss) separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

|  | <b>Year ended December 31,</b> |                  |                |
|--|--------------------------------|------------------|----------------|
|  | <b>2006</b>                    | <b>2005</b>      | <b>2004</b>    |
| Net income   | 1,957,316                      | 1,295,465        | 730,339        |
| Other comprehensive income (loss)  |                                |                  |                |
| Foreign currency translation adjustment  | 60,819                         | (15,562)         | 4,174          |
| Financial assets changes in fair value (1)   |                                |                  | 1,143          |
| Reclassification adjustment for available for sale assets for gains realized in net income (1) |                                | (4,023)          | (258)          |
| Changes in fair value of derivative instruments hedging activities                             | 2,078                          |                  |                |
| <b>Total other comprehensive income (loss)</b>   | <b>62,897</b>                  | <b>(19,585)</b>  | <b>5,059</b>   |
| <b>Comprehensive income</b>  | <b>2,020,213</b>               | <b>1,275,880</b> | <b>735,398</b> |

(1) Net of income tax amounting to (\$ 2,305) and \$ 616 for the years ended December 31, 2005 and 2004, respectively. The accumulated balances related to each component of other comprehensive income were as follows:

**Foreign currencies translation adjustment  
for the year ended December 31,**

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|  | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|--|-------------|-------------|-------------|
| Balance at the beginning of the period | 77,188      | 92,750      | 88,576      |
| Adjustment of the period               | 60,819      | (15,562)    | 4,174       |
| Balance at the end of the period       | 138,007     | 77,188      | 92,750      |

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

**34 Other significant U.S. GAAP disclosure requirements (Cont d.)**

*(b) Statement of consolidated comprehensive income under U.S. GAAP (Cont d.)*

|  | <b>Changes in funded status of defined benefit plans<br/>for the year ended December 31,</b> |             |             |
|--|--|-------------|-------------|
|  | <b>2006</b>  | <b>2005</b> | <b>2004</b> |
| Balance at the beginning of the period                                   |  |             |             |
| Cumulative effect adjustment due to the adoption of SFAS 158, net of tax | (4,866)  |             |             |
| Balance at the end of the period   | (4,866)  |             |             |

|  | <b>Financial assets changes in fair value for the<br/>year ended December 31,</b> |             |             |
|--|---|-------------|-------------|
|  | <b>2006</b>   | <b>2005</b> | <b>2004</b> |
| Balance at the beginning of the period                       |   | 4,023       | 3,138       |
| Adjustment of the period                                     |   |             | 1,143       |
| Realized gains or losses transferred to the income statement |   | (4,023)     | (258)       |
| Balance at the end of the period                             |   |             | 4,023       |

|  | <b>Changes in fair value of derivative instruments<br/>hedging activities</b> |             |             |
|--|---|-------------|-------------|
|  | <b>for the year ended December 31,</b>  |             |             |
|  | <b>2006</b>   | <b>2005</b> | <b>2004</b> |
| Balance at the beginning of the period                       |   |             |             |
| Adjustment of the period                                     | 2,380   |             |             |
| Realized gains or losses transferred to the income statement | (302)   |             |             |
| Balance at the end of the period                             | 2,078   |             |             |

*(c) Discontinued operations*

On December 1, 2006, Tenaris completed the sale of a 75% participation of Dalmine Energie, its Italian supply business. As a result of this transaction, under IFRS Tenaris has de-consolidated Dalmine Energie results of operations for current and prior years presented.

Under US GAAP, such a transaction does not meet the necessary conditions for discontinued operation reporting and consequently, the transaction should be reported within continuing operations. Dalmine Energie results of operations for current and previous years presented are disclosed in Note 30.



**Table of Contents***Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004***34 Other significant U.S. GAAP disclosure requirements (Cont d.)***(d) Acquisition of Maverick  
Pro Forma Results*

The following unaudited U.S. GAAP pro forma financial information presents the combined results of operations of the Company and Maverick as if the Acquisition had occurred at January 1, 2006 and 2005. The historical results of the Company for the year ended December 31, 2006 include the results of Maverick from the Acquisition Date. The pro forma results presented below for the year ended December 31, 2006 combine the results of the Company for the year ended December 31, 2006 and the historical results of Maverick from January 1, 2006 through the Acquisition date. The pro forma results for the year ended December 31, 2005 combine the historical results of the Company for the year ended December 31, 2005 with the historical results of Maverick for the same period. The historical results of Maverick included in the pro forma results were prepared under the responsibility of previous management and not audited. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations or financial condition that would have been reported had the Acquisition been completed as of the beginning of the periods presented. It should not be taken as indicative of the Company's future consolidated results of operations or financial condition.

The pro forma results include Maverick results for the indicative period with increased depreciation and amortization for fixed assets and intangible assets to reflect purchase price allocation, assuming the Acquisition occurred on January 1, 2006 and 2005. Interest expense on the acquisition borrowings has also been included. Pro forma adjustments are tax-effected at the applicable tax rate.

|  | <b>Year ended<br/>December 31,</b> |             |
|--|------------------------------------|-------------|
|  | <b>2006</b>                        | <b>2005</b> |
| Net sales  | 9,773,565                          | 8,521,430   |
| Net income before income tax and minority interest | 2,942,070                          | 1,919,907   |
| Net income   | 1,929,876                          | 1,262,097   |
| Net earnings per share                             | 1.63                               | 1.07        |

*(e) Amortization of intangible assets licenses and patents and customer relationships***Estimated amortization expense for the next five years**

|                                       |         |
|---------------------------------------|---------|
| For the year ending December 31, 2007 | 136,594 |
| For the year ending December 31, 2008 | 136,362 |
| For the year ending December 31, 2009 | 136,354 |
| For the year ending December 31, 2010 | 106,310 |
| For the year ending December 31, 2011 | 106,310 |

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*Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004*

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**34 Other significant U.S. GAAP disclosure requirements (Continued.)**

*(f) Recent U.S. GAAP accounting pronouncement not yet adopted*

In February 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 155, which amends Statements No. 133 and 140. Statement 155 provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with Statement 133. Statement 155 allows an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the impact of SFAS 155 on the consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140 (SFAS 156). SFAS 156 requires recognition of a servicing asset or liability at fair value each time an obligation is undertaken to service a financial asset by entering into a servicing contract. SFAS 156 also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. This statement is effective for fiscal years beginning after September 15, 2006. The company is currently evaluating the impact of SFAS 156 on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Company as from January 1, 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 159 will have on the consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 ( FIN 48 ), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires financial statement recognition of the impact of a tax position, if that position is more likely than not to be sustained on examination, based on the technical merits of the position. The provisions of FIN 48 will be effective for financial statements issued for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The company is currently evaluating the impact of FIN 48 on the consolidated financial statements.



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**SIGNATURES**

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

June 29, 2007

TENARIS S.A.

By /s/ Carlos Condorelli  
Name: Carlos Condorelli  
Title: Chief Financial Officer

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EXHIBIT INDEX

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 1.1                   | Updated and Consolidated Articles of Association of Tenaris S.A., dated as of June 7, 2006         |
| 2.1                   | Deposit Agreement entered into between Tenaris S.A. and JPMorgan Chase Bank as amended*            |
| 7.1                   | Statement Explaining Calculation of Ratios   |
| 8.1                   | List of Subsidiaries of Tenaris S.A.   |
| 12.1                  | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 12.2                  | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 13.1                  | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2                  | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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\* The Deposit Agreement is incorporated by reference to the Registration Statement on Form F-4, filed by Tenaris S.A. on September 18, 2002 (File No. 333-99769) and its Amendment No. 1 is incorporated by reference to the Registration statement on Form F-6 EF, filed by Tenaris S.A. on April 10, 2006 (File No. 333-133159).