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TENARIS SA
Form 6-K
March 02, 2007

FORM 6 - K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

As of March 2, 2007

TENARIS, S.A.
(Translation of Registrant's name into English)

TENARIS, S.A.
46a, Avenue John F. Kennedy
L-1855 Luxembourg
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or 40-F.

Form 20-F Form 40-F
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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12G3-2(b) under the Securities Exchange Act of 1934.

Yes No
--- ---

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__.

The attached material is being furnished to the Securities and Exchange Commission pursuant to Rule 13a-16 and Form 6-K under the Securities Exchange Act of 1934, as amended. This report contains Tenaris' Consolidated Financial Statements for the years ended December 31, 2006, 2005 and 2004.

TENARIS S.A.

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CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006, 2005 and 2004

46a, Avenue John F. Kennedy - 2nd Floor.
L - 1855 Luxembourg

Tenaris S.A. Consolidated financial statements for the years ended December 31, 2006, 2005 and 2004

CONSOLIDATED INCOME STATEMENTS

(all amounts in thousands of U.S. dollars, unless otherwise stated)

		Year ended December	
	Notes	2006	2005
Continuing operations			
Net sales	1	7,727,745	6,209,791
Cost of sales	2	(3,884,226)	(3,429,365)
Gross profit		3,843,519	2,780,426
Selling, general and administrative expenses	3	(1,054,806)	(832,315)
Other operating income	5 (i)	13,077	12,396
Other operating expenses	5 (ii)	(9,304)	(14,595)
Operating income		2,792,486	1,945,912
Interest income	6	60,798	23,815
Interest expense	6	(92,576)	(52,629)
Other financial results	6	26,826	(79,772)
Income before equity in earnings of associated companies and income tax		2,787,534	1,837,326
Equity in earnings of associated companies	7	94,667	117,377

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Income before income tax		2,882,201	1,954,703
Income tax	8	(869,977)	(567,368)
Income for continuing operations		2,012,224	1,387,335
Discontinued operations (see Note 30)			
Income (loss) for discontinued operations		47,180	(3)
Income for the Year		2,059,404	1,387,332
Attributable to (1):			
Equity holders of the Company		1,945,314	1,277,547
Minority interest		114,090	109,785
		2,059,404	1,387,332
Earnings per share attributable to the equity holders of the Company during year			
Weighted average number of ordinary shares (thousands)	9	1,180,537	1,180,537
Earnings per share (U.S. dollars per share)	9	1.65	1.08
Earnings per ADS (U.S. dollars per ADS)	9	3.30	2.16

(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.

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CONSOLIDATED BALANCE SHEETS

(all amounts in thousands of U.S. dollars)

At December 31, 2006

	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment, net	10	2,939,241	
Intangible assets, net	11	2,844,498	
Investments in associated companies	12	422,958	
Other investments	13	26,834	
Deferred tax assets	21	291,641	
Receivables	14	41,238	6,566,410

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Current assets				
Inventories	15	2,372,308		
Receivables and prepayments	16	272,632		
Current tax assets	17	202,718		
Trade receivables	18	1,625,241		
Other investments	19	183,604		
Cash and cash equivalents	19	1,372,329	6,028,832	

Total assets				12,595,242

EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital		1,180,537		
Legal reserves		118,054		
Share premium		609,733		
Currency translation adjustments		3,954		
Other reserves		28,757		
Retained earnings		3,397,584	5,338,619	

Minority interest				363,011

Total equity				5,701,630

LIABILITIES				
Non-current liabilities				
Borrowings	20	2,857,046		
Deferred tax liabilities	21	991,945		
Other liabilities	22(i)	186,724		
Provisions	23(ii)	92,027		
Trade payables		366	4,128,108	

Current liabilities				
Borrowings	20	794,197		
Current tax liabilities		565,985		
Other liabilities	22(ii)	187,701		
Provisions	24(ii)	26,645		
Customer advances		352,717		
Trade payables		838,259	2,765,504	

Total liabilities				6,893,612

Total equity and liabilities				12,595,242

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(all amounts in thousands of U.S. dollars)

	Attributable to equity holders of the Company					
	Share Capital	Legal Reserves	Share Premium	Currency translation adjustment	Other Reserves	Retain Earni (*
Balance at January 1, 2006	1,180,537	118,054	609,733	(59,743)	2,718	1,656,
Currency translation differences	-	-	-	63,697	-	-
Change in equity reserves (See section III C and Note 28 (c))	-	-	-	-	26,039	-
Acquisition of minority interest	-	-	-	-	-	-
Dividends paid in cash	-	-	-	-	-	(204,
Income for the period	-	-	-	-	-	- 1,945,
Balance at December 31, 2006	1,180,537	118,054	609,733	3,954	28,757	3,397,

(*) 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.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTD.)

(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	Retain Earni
Balance at January 1, 2005	1,180,537	118,054	609,733	82	(30,020)	-	617,
Effect of adopting IFRS 3 (see Note 1)	-	-	-	-	-	-	110,

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Adjusted balance at January 1, 2005	1,180,537	118,054	609,733	82	(30,020)	-	728,
Currency translation differences	-	-	-	-	(29,723)	-	
Increase in equity reserves in Ternium	-	-	-	-	-	2,718	
Acquisition of minority interest	-	-	-	-	-	-	
Dividends paid in cash	-	-	-	(82)	-	-	(349,
Income for the period	-	-	-	-	-	-	1,277,

Balance at December 31, 2005	1,180,537	118,054	609,733	-	(59,743)	2,718	1,656,

Attributable to equity holders of the Company

	Share Capital	Legal Reserves	Share Premium	Other Distributable Reserve	Currency translation adjustment	Other Reserves	Retain Earni

Balance at January 1, 2004	1,180,288	118,029	609,269	96,555	(34,194)	-	(128,
Currency translation differences	-	-	-	-	4,174	-	
Capital increase and acquisition of minority interest	249	25	464	82	-	-	
Dividends paid in cash	-	-	-	(96,555)	-	-	(38,
Income for the period	-	-	-	-	-	-	784,

Balance at December 31, 2004	1,180,537	118,054	609,733	82	(30,020)	-	617,

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

CONSOLIDATED CASH FLOW STATEMENTS

(all amounts in thousands of U.S. dollars)	Note	Year ended Dece	
		2006	2005

Cash flows from operating activities			
Income for the year		2,059,404	1,387
Adjustments for:			
Depreciation and amortization	10 & 11	255,004	214

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Income tax accruals less payments	29 (ii)	56,836	149
Equity in earnings of associated companies		(94,667)	(117)
Interest accruals less payments, net	29 (iii)	21,909	1
Income from disposal of investment and others		(46,481)	
Changes in provisions		8,894	6
Proceeds from Fintecna arbitration award net of BHP settlement		-	66
Changes in working capital (1)	29 (i)	(469,517)	(433)
Other, including currency translation adjustment		19,474	20
		-----	-----
Net cash provided by operating activities		1,810,856	1,295
		-----	-----
Cash flows from investing activities			
Capital expenditures	10 & 11	(441,472)	(284)
Acquisitions of subsidiaries	28	(2,387,249)	(48)
Proceeds from disposal of subsidiary		52,995	
Convertible loan to associated companies		-	(40)
Proceeds from disposal of property, plant and equipment and intangible assets		15,347	9
Dividends and distributions received from associated companies	12	-	59
Changes in restricted bank deposits		2,027	11
Reimbursement from trust funds		-	(119)
Changes in investments in short terms securities		(63,697)	119
		-----	-----
Net cash used in investing activities		(2,822,049)	(292)
		-----	-----
Cash flows from financing activities			
Dividends paid		(204,233)	(349)
Dividends paid to minority interest in subsidiaries		(23,194)	(14)
Proceeds from borrowings		3,033,230	1,222
Repayments of borrowings		(1,105,098)	(1,463)
		-----	-----
Net cash provided by (used) in financing activities		1,700,705	(604)
		-----	-----
Increase in cash and cash equivalents		689,512	398
Movement in cash and cash equivalents			
At the beginning of the period		680,591	293
Effect of exchange rate changes		(5,095)	(11)
Increase in cash and cash equivalents		689,512	398
		-----	-----
At December 31, 2006	29 (iv)	1,365,008	680
		-----	-----

(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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I. GENERAL INFORMATION

Tenaris S.A. (the "Company"), a Luxembourg corporation (societe 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.

Tenaris shares are listed on the New York, Buenos Aires, Milan, and Mexico City Stock Exchanges.

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

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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

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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, hot briquetted iron, steel electrical conduit and other metallic products.

Corporate general and administrative expenses have been allocated to the Tubes segment.

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

C Segment information (Cont'd.)

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

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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:

- o 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 rate of exchange rate versus the U.S. dollar;
- o Prices of critical raw materials and inputs are priced and settled in U.S. dollars;
- o The exchange rate of the currency of Argentina has long-been affected by recurring and severe economic crises; o 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.

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.

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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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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. o (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.

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(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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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

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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 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:

- o The value of share capital, legal reserve, share premium and other distributable reserve calculated in accordance with Luxembourg Law;
- o 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

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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

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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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

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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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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.

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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:

- o Interest income: on the effective yield basis.
- o Dividend income from investments in other companies: when Tenaris' right to collect is established.

S Cost of sales and sales expenses

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".

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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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B. Fair value estimation

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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,