# Annual Report 2005

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Cautionary statement

Some of the statements contained in this Annual Report are "forward-looking statements". Forward-looking statements are based on management's current (March 2006) assumptions and involve known and unknown risks that could cause actual results, performance or events to differ materially from those expressed or implied by those statements. These risks include, but are not limited to, risks arising from uncertainties as to future oil and gas prices and their impact on the investment programs by oil and gas companies.

Certain figures included in this Annual Report have been subject to rounding adjustments. Accordingly, figures shown as totals in tables may not be the sum of the figures that precede them, and percentages in the text may not total 100% or may not be the sum of the percentages that precede them.

Annual Report 2005

Tenaris is the leading global manufacturer of seamless steel pipes for the world's oil and gas industry and a leading global supplier of seamless steel pipes for process and power plants and for industrial and automotive applications. We are also the leading regional supplier of welded steel pipes for oil and gas pipelines in South America. Our customers include most of the world's major oil and gas companies as well as a large number of engineering and industrial companies.

# Company profile

Domiciled in Luxembourg, we have manufacturing facilities in Argentina, Brazil, Canada, Italy, Japan, Mexico, Romania and Venezuela and specialized R&D and proprietary global service and distribution networks. Our annual manufacturing capacity is 3.3 million tons of seamless and 930 thousand tons of welded pipes. With this infrastructure and our 17,500 employees, we focus on providing end-user customers a service that integrates manufacturing, procurement, distribution and on-time delivery of high quality products throughout the world.

We aim for long-term sustainable growth to reward our shareholders and to give opportunities for our employees. And since we recognize that much of our success results from the contribution of our local communities, we work hard to help them share in the opportunities that such success makes possible and to minimize the environmental impact of our activities on them.

# Leading indicators

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| SALES VOLUMES (thousands of metric tons) | | | |
| Seamless pipes | 2,870 | 2,646 | 2,278 |
| Welded pipes | 501 | 316 | 355 |
| **Total steel pipes** | **3,371** | **2,963** | **2,633** |
| PRODUCTION VOLUMES (thousands of metric tons) | | | |
| Seamless pipes | 2,842 | 2,631 | 2,275 |
| Welded pipes | 476 | 366 | 346 |
| **Total steel pipes** | **3,318** | **2,997** | **2,621** |
| FINANCIAL INDICATORS (millions of USD) | | | |
| Net sales | 6,736 | 4,136 | 3,180 |
| Operating income | 1,948 | 814 | 288 |
| EBITDA (1) | 2,163 | 899 | 602 |
| Net income (2) | 1,387 | 805 | 222 |
| Free cash flow (3) | 1,011 | (85) | 113 |
| Capital expenditures | 284 | 183 | 163 |
| BALANCE SHEET (millions of USD) | | | |
| Total assets | 6,706 | 5,662 | 4,310 |
| Total financial debt | 1,010 | 1,259 | 834 |
| Net financial debt (4) | 183 | 828 | 448 |
| Total liabilities | 2,930 | 3,001 | 2,348 |
| Shareholders' equity including minority interest | 3,776 | 2,661 | 1,961 |
| PER SHARE / ADS DATA (USD PER SHARE / PER ADS) | | | |
| **Number of shares outstanding** (5) (thousands of shares) | **1,180,537** | **1,180,537** | **1,180,288** |
| Earnings per share | 1.08 | 0.66 | 0.18 |
| Earnings per ADS | 10.82 | 6.65 | 1.78 |
| Dividends per share (6) | 0.30 | 0.11 | 0.10 |
| Dividends per ADS (6) | 2.96 | 1.14 | 0.99 |
| ADS Stock price at year-end | 114.50 | 48.90 | 33.32 |
| Number of employees (5) | 17,693 | 16,447 | 14,391 |

(1) Defined as operating income plus depreciation and amortization charges taken before non-recurring losses and provisions relating to the litigation settled in 2003 with a consortium led by BHP Billiton Petroleum Ltd., and non-recurring gains derived from the Fintecna arbitration award.

(2) Equals net income before deduction of minority interest. See Section IV (a) of the consolidated financial statements.

(3) Defined as net cash from operations (USD 1,295 million, USD 98 million, USD 276 million in 2005, 2004 and 2003, respectively) less capital expenditures (USD 284 million, USD 183 million and USD 163 million in 2005, 2004 and 2003, respectively).

(4) Defined as borrowings less cash and cash equivalents and other current investments.

(5) As of December 31.

(6) Paid during the year.

# Chairman's letter

Dear Shareholders,

2005 was a year when many of the supply issues facing the energy industry came into stark focus. The difficulties of increasing global oil and gas production to keep pace with continuing increases in demand and declines in production from the fields in operation today were reflected in yet higher oil and gas prices. There are tremendous challenges to gain access to new exploration and production areas, to expand infrastructure both upstream and downstream and to incorporate and train human resources throughout the supply chain.

Production output from the world's largest and most productive oilfields, most of which were discovered more than 30 years ago, is now firmly declining. As fields become less productive, more wells need to be drilled to produce a similar level of output. And as the most accessible fields have already been developed, drilling activity is taking place increasingly in more complex operating environments, both from the technological and the geopolitical perspective.

For Tenaris, this operating background presents tremendous opportunities as well as responsibilities. As the leading supplier of seamless pipes to the oil and gas industry worldwide, we are benefiting from increased demand for products that can perform in technologically challenging environments such as deep and ultra-deepwater, highly corrosive conditions and the Arctic. At the same time, we have to ensure that our customers have access to the products and services they need when they need them, even in the most remote areas of the world.

Over the past few years, Tenaris has been investing in the development of new products such as our high performance TenarisBlue® premium connections, proprietary sour service OCTG steel grades and high specification line pipe for deepwater and ultra-deepwater applications, as well as the facilities required to produce them. We have also been establishing long-term source of supply relationships and building full-service bases in key regions around the world. We are accompanying our customers to remote locations and integrating our mill production capabilities to their drilling operations through a flexible and efficient supply chain management system.

The results of these past efforts were in evidence in 2005. We increased sales by volume of high-end products by 25% and consolidated our position in the OCTG market. During the year, we launched a two-year, USD 350 million investment program at our mills to add new finishing lines, heat treatment capacity and other capabilities required for the manufacture of specialized, high-end products used in the most demanding applications. We are also strengthening our research and development and product qualification capabilities by investing in a new research facility in Mexico and expanding our access to research facilities in Italy. Our product development budgets have been growing rapidly and we are reinforcing our R&D personnel.

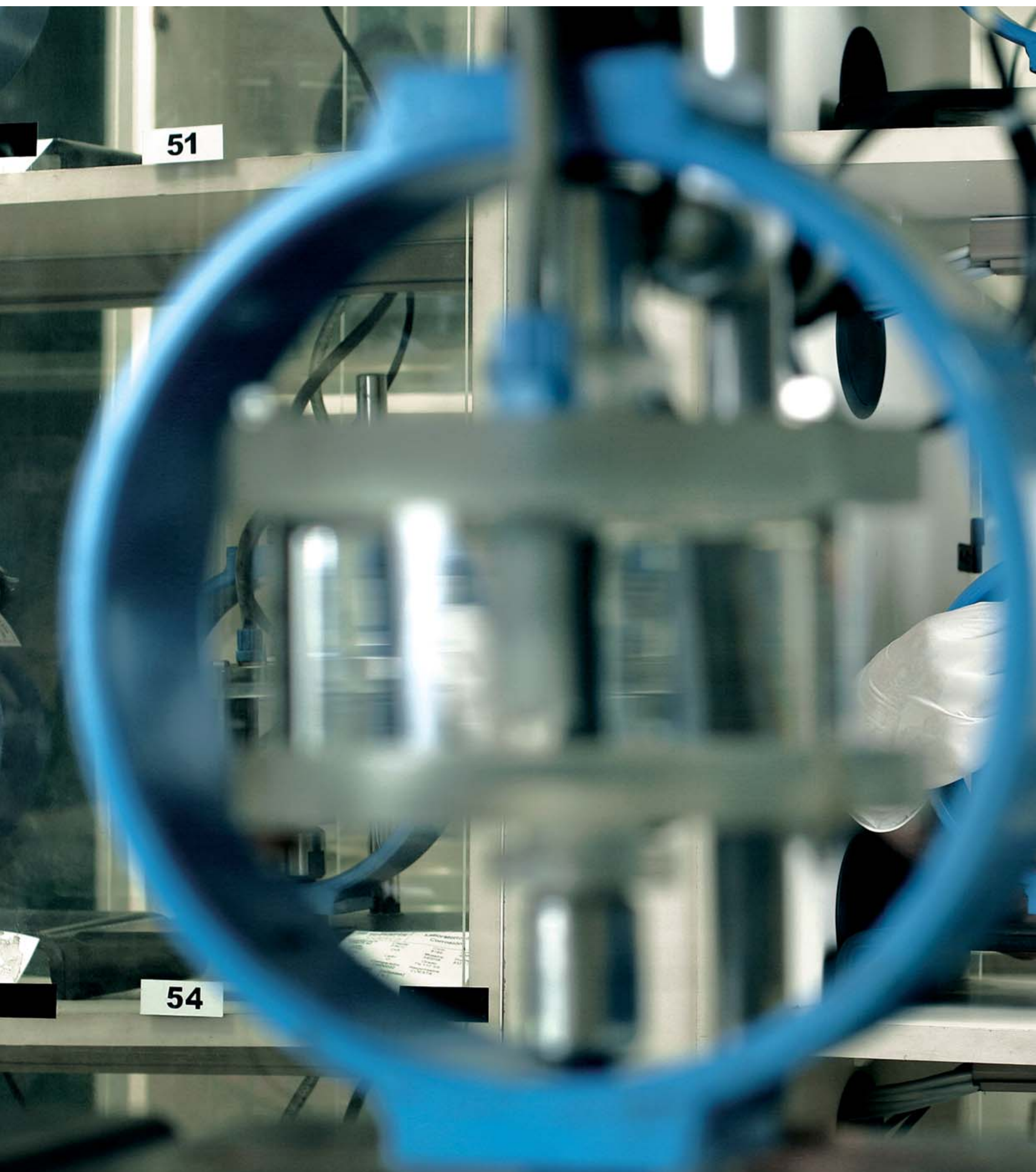
To help us match the expectations of our customers, we remain focused on investing in our industrial system, in automation and in the information technology supporting the integration of our industrial and supply chain systems, as well as in the training of our personnel at all levels of the organization. We acquired a steel shop in Romania and integrated our operations in Eastern Europe.

Our financial results for the year reflect the favorable environment and our exceptional positioning in the market. Net sales for the year rose to USD 6.7 billion and EBITDA to USD 2.2 billion. Earnings per share rose 63% to USD 1.08, or USD 10.82 per ADS. We are proposing to pay a final dividend for the year of USD 0.173 per share (USD 1.73 per ADS) in June, which, in addition to the interim dividend of USD 0.127 per share (USD 1.27 per ADS) paid in November, would make for a total annual dividend of USD 0.30 per share (USD 3.00 per ADS), an increase of 78% over the previous year.

Once again, our employees have responded well to the challenge and high workload of a demanding market. I want to thank all of them for their efforts and also express my thanks to our customers, suppliers and shareholders for their continuous support and confidence in Tenaris.

March 1, 2006

Paolo Rocca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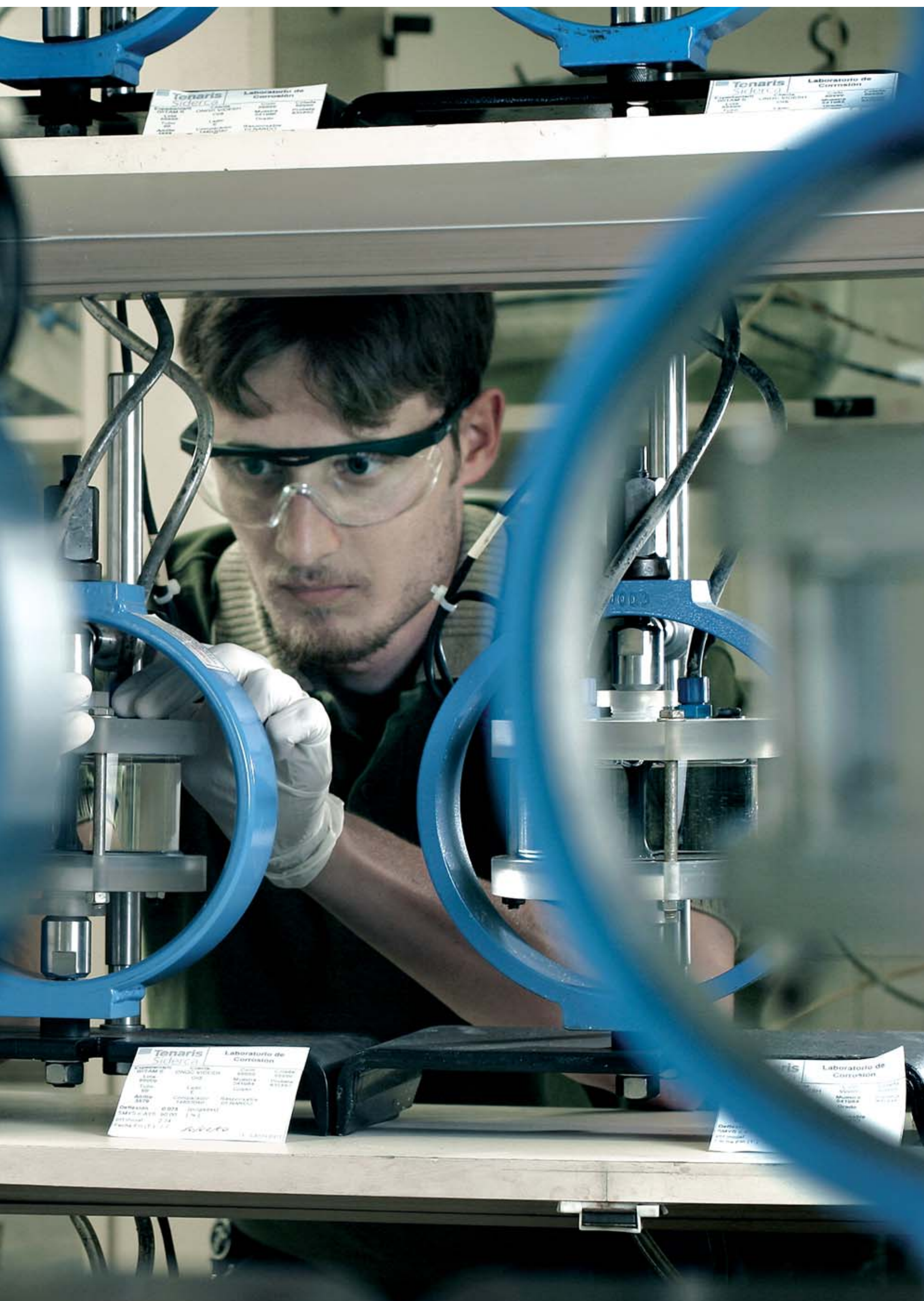



Tenaris has conducted extensive research in the corrosion resistance of tubular products. This experience has driven the development of specialized steels that guarantee long-lasting performance in a variety of harsh production conditions.

# Business review

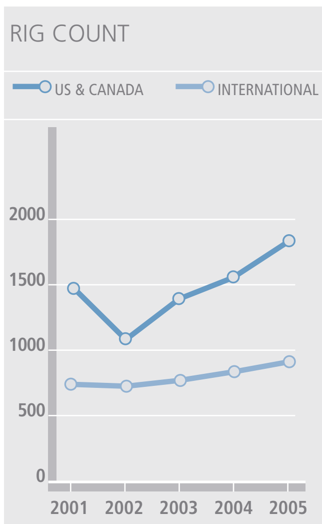
## Market background and outlook

In 2005, further increases in exploration and production spending by oil and gas companies and increased drilling activity, reflecting high oil and gas prices and continuing increases in global demand for oil and gas, led the increase in demand for seamless pipe products. The international count of active drilling rigs, as published by Baker Hughes, averaged 929 during the fourth quarter of 2005, an increase of 8% compared to the same quarter of the previous year and an increase of 9% for the year overall compared to 2004. The corresponding percentage annual rig count increases in the Canadian and US markets, which are more sensitive to natural gas prices, were 24% and 16% respectively.

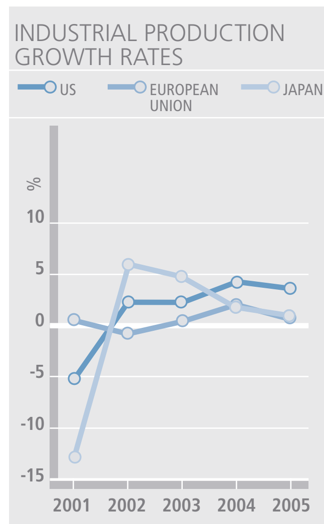
We estimate that global apparent consumption of seamless OCTG (oil country tubular goods) in 2005 grew around 17% compared to 2004, and will grow further in 2006. Demand for other seamless products also increased contributing to an overall estimated increase in apparent consumption of seamless pipe products worldwide of around 9% in 2005 over 2004. Demand from the energy sector for our high-end seamless pipe products, including premium connections, used in complex drilling and other high-performance applications grew strongly in 2005 and should grow further in 2006.

Favorable market conditions and increased demand for high-end seamless pipe products helped us to record strong sales growth and a higher gross margin for our seamless pipe products as higher average selling prices were more than sufficient to offset the impact of higher raw material, energy and labor costs. We expect that the continuation of favorable market conditions and increased demand for high-end seamless pipe products will result in further sales growth and that we will maintain our operating margins at the higher levels shown in 2005.

Demand for our welded pipe products, which depend to a substantial extent on specific projects, particularly those for the construction of oil and




Source: Baker Hughes.



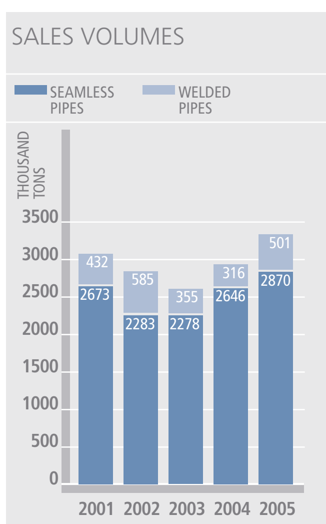

Source: Government statistics.

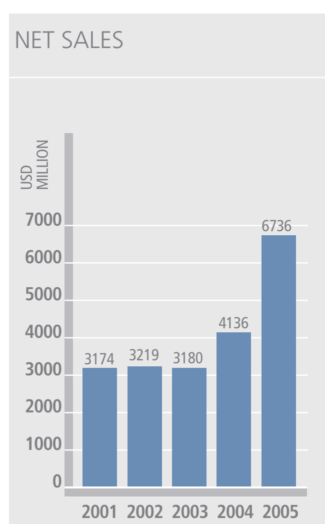
Tenaris has developed ultra high resistance steels for airbag inflator vessels, which guarantee safety and fulfill the most demanding customer requirements.

gas pipelines in the regional market of our two welded pipe mills in South America, can vary significantly from year to year. In 2005, demand for our welded pipe products benefited from gas and mineral slurry pipeline projects in Brazil and from gas pipeline expansion projects in Argentina. We expect demand for our welded pipe products in 2006 to be affected by delays to the implementation of projects in Brazil and Argentina which will result in reduced sales and margins on welded pipes for the year.

## Summary of results

Our results reflect the strong performance of our seamless pipe business. We are the leading supplier of seamless pipe products to the global energy industry and have been increasing our sales of high-end products, such as premium connections, sour service and high collapse grades used in deeper and more corrosive environments and special deepwater line pipe for risers and flowlines. Net sales of our seamless pipes, which accounted for 76% of our total net sales, rose 57% with particularly strong growth recorded in the Middle East and Africa region. Our welded pipe business also enjoyed a good year with strong demand for welded pipes for gas pipeline projects in its regional markets of Brazil and Argentina.




Operating income rose 140% to USD 1,948 million, or 29% of net sales, compared to USD 814 million, or 20% of net sales, in 2004. Excluding a one-time operating income gain of USD 123 million recorded in 2004 in respect of an arbitration award, operating income plus depreciation and amortization rose 141% to USD 2,163 million, or 32% of net sales, compared to USD 899 million, or 22% of net sales, in 2004.

Free cash flow (net cash provided by operations less capital expenditures) during the year rose to USD 1,011 million, compared to an outflow of USD 85 million in 2004. This strong free cash flow was used to fund the acquisition of a Romanian steel shop, increase dividends and to reduce our net debt position.

Capital expenditures in 2005 rose to USD 284 million, compared to USD 183 million in 2004, and are expected to increase further in 2006 due to our investment program to add the finishing lines, heat treatment capacity and other capabilities required to increase our capacity to produce high-end products.

## Oilfield Services

We supply a comprehensive range of high quality seamless casing and tubing, premium connections and accessories for use in the most demanding oil and gas drilling and well completion activities. Using our unique network of manufacturing,

# Double joint flowlines for Dalia

When the USD 3.4 billion (estimated) Dalia deepwater project comes on stream during the second half of 2006, production will move through undersea flowlines comprised of Tenaris double joint pipe installed on the sea floor in water depths of between 1,200 and 1,500 meters. For the project, Tenaris had to qualify and manufacture 8,500 tons of double joint pipe meeting high specification X65 reel-laid pipe requirements on an accelerated time schedule.

Technip, the engineering and construction company in charge of laying Dalia's undersea pipelines, awarded Tenaris the contract based on our ability to manufacture the more efficient and cost-effective double joint pipe and our reputation for having well trained manufacturing personnel supported by a state-of-the-art welding laboratory. The use of coated, double-jointed pipe in flowlines for deep and ultra-deepwater applications offers significant advantages due to the reduction in on-site coating and weld time, as well as providing a more homogeneous anti-corrosive coating.

. Location 135 km off the coast of Angola

. Customer Technip

. Project description Discovered in 1997, Dalia is expected to process 240,000 barrels of oil daily from 34 production wells, 30 water injection wells and three gas injection wells.

Photo courtesy of Technip

# Tenaris Pipeline Services

customer service and R&D facilities, we focus on reducing costs for our customers through integrated supply chain management and developing industry-leading products.

Industry acceptance and qualification of our TenarisBlue® premium connection continued apace during 2005. It was run for the first time in countries such as Mexico, the US and Qatar and sales were made for the first time to the operations of Repsol YPF in North Africa, OMV and Apache in Oceania, BHP in Trinidad, Chevron in Nigeria and the UK and BP in Venezuela. In Canada, it is now widely used along with the newly introduced TenarisBlue® SAGD by operators including Husky, Shell, Nexen and Suncor.

TenarisBlue® is starting to become the connection of choice for the most challenging environments. ConocoPhillips is using it in high-pressure, high-temperature wells in the North Sea, as is Total in Indonesia, and Panamerican Energy has been using it for its extended reach horizontal wells in Argentina. In its Dopeless™ version, it has been successfully run throughout the year at Statoil's Snøhvit field in the Barents Sea in a range of carbon, 13 Cr and 25 Cr steels, and is gaining acceptance among customers like Saudi Aramco and ENI for its operational efficiencies and effectiveness in reducing risks and running time at the rig.

We extended the TenarisBlue® premium connection platform with the introduction of the TenarisBlue® Near Flush, an integral connection for use in slim wells, and the TenarisBlue® SAGD, a connection specially designed for use with slotted liners. We also started construction of a new R&D center in Mexico to increase our testing and qualification capacity and complement our research capabilities. The new center will perform high capacity, full scale testing of premium connections and risers.

Our strategic alliance with Sandvik, a world-leading producer of stainless and high-alloy steels, delivered excellent results. The award of contracts to supply Sandvik CRA materials with TenarisBlue® connections for QatarGas III and IV and Shell Pearl GTL was particularly noteworthy.

Among other initiatives, we signed a global agreement with Schlumberger to provide tubular goods and services for their Integrated Project Management (IPM) operations and strengthened our capability to supply integrated supply chain management services in strategic locations with the start up of threading facilities in Kazakhstan and by starting construction of a new service base in Egypt which will support Petrobel's operations under a new long-term agreement.

## Pipeline Services

We supply an extensive range of tailor-made seamless pipes, complete with coatings and accessories for use in every operating environment –onshore, offshore and deepwater. Our focus is on providing the risers, flowlines and subsea tubular components for the deepwater and ultra-deepwater markets where we are a major player in the Gulf of Mexico, West Africa, United Kingdom and Scandinavia.

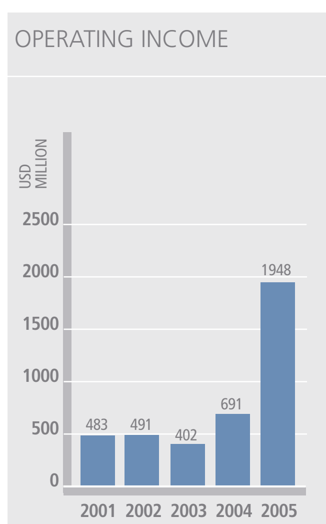
As the industry moves further into frontier deepwater exploration and production projects, increasingly stringent technical requirements are required for our products. During the year, we made significant progress in developing higher yield strength, weldable steel grades with reduced wall thickness for uses where the host payload is mission critical, as well as in pipe insulation and pipe geometry technology.

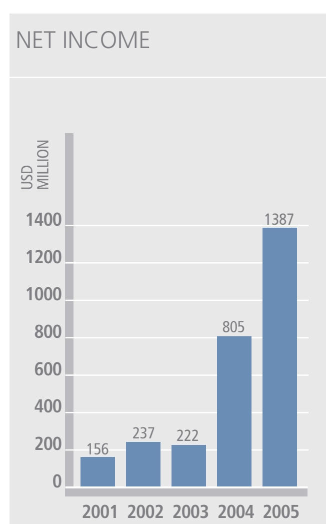
For the Dalia project in offshore Angola, we successfully met the challenge of manufacturing double joint pipe meeting the X65 reel-laid requirements specified by the laying contractor.

Using our new welding laboratory in Veracruz, we were able to provide Technip continual trials, quality testing and an engineering critical assessment for the reeling application, and then delivered 8,500 tons of double joint pipe for installation on the sea-floor in water depths of 1,200-1,500 meters. Following the success of this project, Technip selected us to supply 8,800 tons of pipe with welded anode pads, coating and sorting services to be used for the undersea flowlines for BP's six-field development known as Greater Plutonio with shipment due in 2006.

Other important project awards included Anadarko's Independence Hub in the Gulf of Mexico, where we will manufacture 17,800 tons of pipe meeting stringent dimensional tolerances for risers and flowlines reaching a depth of 8,000 ft, Chevron's Tahiti in the Gulf of Mexico where we will supply pipe for risers and flowlines, Total's Akpo in Nigeria, where we will provide 23,000 tons of pipe for the gas export line and ConocoPhillips' BritSat in the UK.

As we seek to align our capabilities with the increasingly complex technological needs of our customers we are stepping up our involvement in joint industry programs, which provide a forum for key industry players to share information on pipeline issues. In July, we launched a collaborative program called Strainweld, whose purpose is to involve customers in the study and evaluation of currently accepted hardness levels for C-steel girth welds intended for sour service and which are subjected to severe plastic straining during the installation process.




## Process & Power Plant Services

We provide comprehensive material planning and supply chain management services and on-time delivery of quality products to enable customers in the process and power plant industry meet the demanding needs of major refinery, petrochemical and power plant contracts.

Downstream project activity surged during the year with gas projects in the Middle East to the fore. We supplied pipes for the second phase construction of the two process trains at the QatarGas II project, the world's largest LNG project, as well as various NGL and other gas processing plants. For 2006, there are a number of large refinery projects on the drawing board.

Investments in capital projects in the processing industry are substantial with the average project size considerably larger than in recent years. This has a substantial impact on material supply needs,

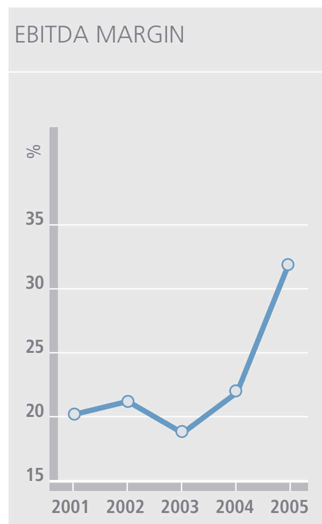
武士 謹治

Strict quality control procedures and modern manufacturing technologies result in high-end products that comply with the most rigorous quality standards.

which has been exacerbated by the tight global market for seamless pipe products. The securing of material availability has become a critical element for most large projects today. We have been adjusting to the new environment, with the uniquely different aspects of material planning required for these mega-projects, by implementing new ways of working focused on mill reservation protocols. This has also involved the strengthening of strategic supplier relationships with leading global engineering companies such as Technip, Snamprogetti, Bechtel, KBR and Chiyoda.

Activity in the power generation sector remained strong in 2005 again led by China, where rapid economic growth and soaring domestic energy consumption continues to create demand for new and upgraded power generation plants. Long-term prospects for this sector are encouraging and we are focusing several R&D initiatives and investments for the particular tubular requirements of this sector.

EBITDA MARGIN

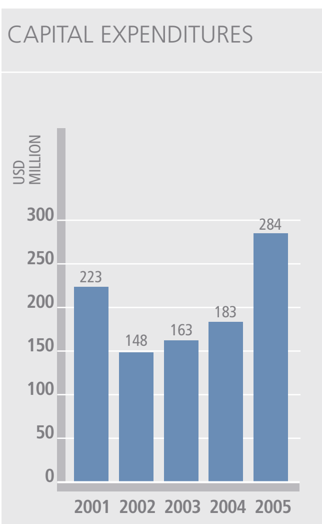


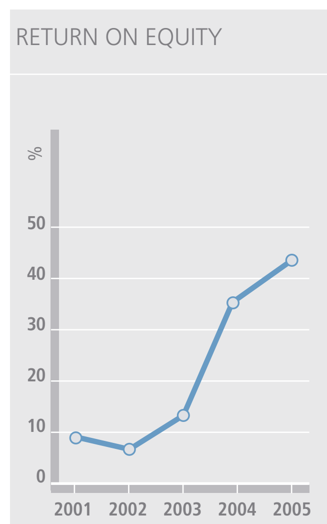
## Industrial & Automotive Services

We provide a wide variety of seamless pipe products for industrial applications with a focus on segments such as automotive components, hydraulic cylinders, construction machinery, gas cylinders and architectural structures where we can add value with our specialized product development and supply chain management expertise. Sales are concentrated in Europe, particularly Italy, where our mill has traditionally served this market, but we also have significant sales in North America, the Far East and Mercosur.

Early expectations that the European industrial and automotive market would return to growth in 2005 proved optimistic and, with some exceptions, the market remained flat. With competition from low-cost producers in countries entering the European Union and other Eastern European countries as well as constrained mill capacity allocation, we focused on strengthening our position in applications where we can differentiate our product offering through high technology content backed up by an integrated service program. Progress was made in integrating services such as just-in-time delivery of machined components into automotive sector supply agreements and in consolidating a leadership position in the industrial hydraulics sector.

Our Romanian mill, Silcotub, was fully integrated into our European commercial system and is providing a strategic option for sales to industrial and automotive customers in the expanded EU market. In order to serve small lot end-users in Romania we set up a network of authorized distributors following the model established in Italy. During the year, there was a significant increase in production of cold-drawn tubes for the automotive business, due in part to the growth of the Romanian automotive sector led by the Renault-Dacia Logan project.



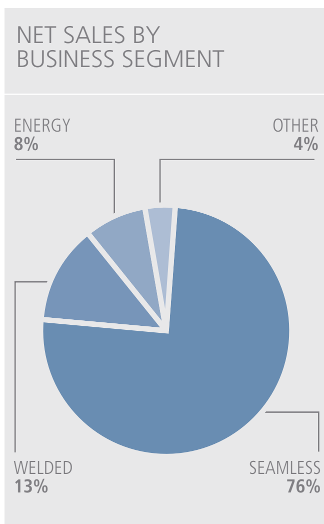



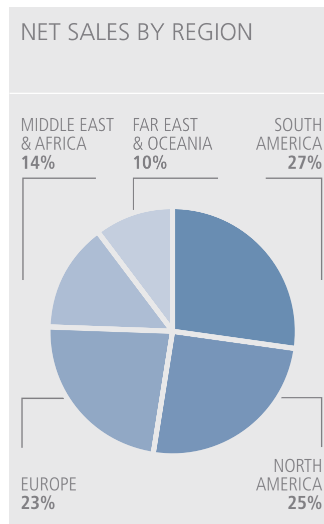

In the NAFTA market we consolidated our leadership position in the inflators for airbags market through the expansion of our new automotive component center in Veracruz. The production capacity of this facility was increased from 14.4 million pieces a year to 24 million pieces. We have also increased capacity of our cold drawing facilities to support the growth in demand for machined automotive components, which, in addition to airbag inflators, include CV joints, half shafts, ring gears and trailer axles.

We have been developing new high strength steel grades, including a new steel grade suitable for ring gear manufacturing, as well as investigating various conversion processes for component manufacturing.

### Welded

Demand for natural gas and oil in Brazil and Argentina continued to rise, supported by economic growth and the increasing weight of natural gas in Brazil's energy mix. Major infrastructure projects were executed to transport natural gas and minerals, which had been postponed in the past. In Brazil, gas transportation projects included the Coari Manaus project that links the Amazon region, Manati onshore and offshore, Catu-Carmopolis-Pilar, and Cabiunas-Victoria (GASENE) in the Southeast and Northeast regions of the country.




In the mining sector, the most important project included the Paragominas bauxite slurry pipeline to supply the Alunorte plant, the first such pipeline built in the world. In Argentina, the gas pipeline infrastructure was expanded by building loops on the existing gas pipelines.

Toward the end of the year, demand for welded pipes for projects in the regional market weakened, primarily because of delays in the definition of the second segment of GASENE (Cacimbas-Catu), Gasfor II in Brazil, and new gas pipeline loops in Argentina.

Tenaris, in association with Socotherm, built a new pipe coating plant in the state of Espiritu Santo, Brazil. The plant incorporates advanced pipe coating technology, which will help us to meet customer needs in oil and gas exploration in both deepwater and ultra-deepwater environments.

The outlook for 2006 is a little uncertain, as we await definition of the GASENE project and the loops in Argentina; exports are expected to make up a higher share of sales.

Brazil continues with a shortage of gas transportation capacity, primarily in the north-east of the country, where gas is used for thermoelectric generators. Expansions are also expected in the south of the country, a region that uses natural gas for its industry, where users are currently awaiting definitive arrangements for supply from Bolivia. In oil transportation, Petrobras is going ahead with the PDET offshore project, to transport oil in the area of the Campos basin.

In the mining sector, Samarco has recently awarded us a contract to supply pipes for a new 345-km 16" pipes that will transport iron ore from the state of Minas Gerais to the coast of Espiritu Santo.

Commercialization of new premium connection technologies entails previous fulfillment of advanced performance evaluation tests. A qualification procedure usually takes around 800 hours to complete.

In export markets, demand and prices for natural gas and oil remain high, a situation that favors the implementation of major pipeline project opportunities in North America and Africa.

In January 2006, we acquired a second welded pipe facility in Argentina for USD 28 million. The facility is located in Villa Constitucion, Santa Fe, and has an annual capacity of 80,000 tons of welded pipes whose small diameter size range largely complements the range of welded pipes that we already produce in Argentina.

## Energy

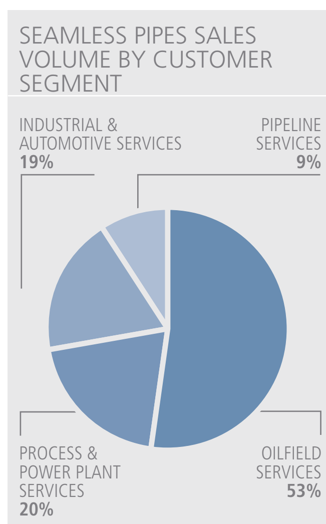
Dalmine Energie, our Italian energy supply business, provides energy and energy services to customers in the Italian industrial, commercial and public sectors. The company offers tailor-made packages that combine electricity, natural gas and energy services and other related products, such as energy hedging and risk management, on-site maintenance services and energy optimization advisory.

Started in 2000 shortly after the partial deregulation of the Italian energy business, Dalmine Energie has increased sales and now has a wide customer base and sold to third parties around 3 TWh of electricity and around 950 million cubic meters of natural gas in 2005.

As a leading energy supplier to the Italian industrial and commercial markets, Dalmine Energie has established successful partnerships with multinational companies like Coca Cola, McDonald's, Bayer, Finmeccanica and Brembo, as well as many trade associations representing the bulk of the Italian energy-intensive industrial base. The basis for all these relationships is a commitment to be the single point of reference for all the energy needs of its customer. With the implementation in the EU of the Emission Trading Scheme to comply with the greenhouse gases emissions targets set by the Kyoto Protocol on climate change, Dalmine Energie is also advising its customers on adapting to an emission-constrained world of $CO_2$ targets compliance.

Following the initial development of the core electricity and natural gas supply activities, Dalmine Energie has been consolidating a portfolio of services that meets the needs of our customers. Examples of this strategy are the development of the energy appliances and networks maintenance service and the operation and maintenance of on-site power and cogeneration plants.

SEAMLESS PIPES SALES VOLUME BY CUSTOMER SEGMENT



# Running TenarisBlue® for Pemex

On January 6, 2006, Tenaris for the first time ran a TenarisBlue® premium connection for the operations of Pemex in Mexico. This followed a series of presentations to the directors and operations personnel of the various regions of Pemex to introduce the advantages of using the new technology, particularly for operations in high pressure, high temperature environments. It is expected that, following this initial use, Pemex will employ the TenarisBlue® connection in many of its operations around Mexico.

Tenaris also provided the running service for the 3 1/2" tubing using pipes delivered from inventory at Reynosa, one of the yards which Tenaris maintains to support its just-in-time delivery service to Pemex. By integrating the supply of pipes with premium connections and other accessories, managing inventories and delivering on a just-in-time basis according to the actual drilling programs of our customers under long-term agreements, we are reducing costs and risks for our customers, allowing them to concentrate resources on their drilling programs.

. Location Reynosa, Tamaulipas
. Customer Pemex
. Project description Arcos 138 - A 2,800 meter gas well in the Burgos basin which is expected to produce 8 million cubic feet of gas per day when in operation.

# Tenaris Oilfield Services

# Communities and environment review

Tenaris's history is deeply entwined with that of the communities where it has its roots. As a long-term industrial project, the essential framework governing its relations with its communities was established many years ago. It departs from the deeply-held conviction of our founding family that the continuing strength of the Company depends on an active participation that links its own development to that of its suppliers, customers, employees, and the communities in which it resides.

This framework encompasses continuous commitments to promoting health and safety among employees, to minimizing the impact of operations on the environment, to maintaining transparent relations with suppliers, customers, employees and local communities, and to working with local authorities and non-governmental organizations to promote education and foster self-reliance.

As a global company with a strong local focus, we employ a workforce of tremendous diversity. This requires strong integration of global and local functions, a high capacity to adapt to local conditions and a clear commitment of the Company's values. Respect for cultural, gender and language differences is a guiding principle for relations among employees at all levels of the Company. This rich cultural diversity is represented in the varied nationalities of our 17,500 employees.

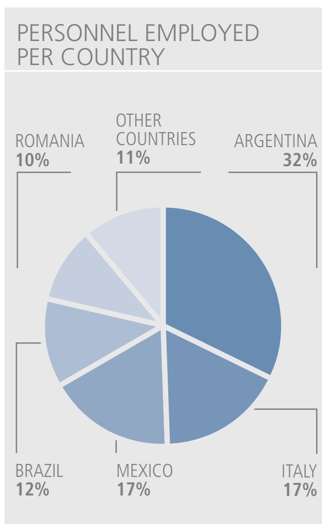
We have established a corporate university to integrate all internal educational and training processes and whose mission is to "Build and sustain Tenaris's competitive advantage by capturing, organizing, enriching and transferring knowledge assets". Training is TenarisUniversity's core activity, as the Company is deeply committed to strengthening the technical and managerial competencies of its human resources. On average, Tenaris white-collar employees spend more than 65 working hours in class or taking e-learning courses, comparable with best practices in people training. More than 40% of training is in the form of specific technical courses directly related to the job of the employee. Training is continuous throughout the employee's career. Courses are structured in such a way so as to blend e-learning delivered via the Company's online learning management system, and classroom teaching, which include off site training, through agreements with universities and external providers, and on site training, which will eventually be delivered at a purpose-built campus.

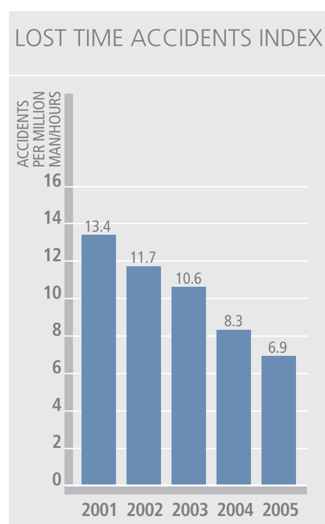
The primary objective of TenarisUniversity is to align knowledge across the Company, which is done through a Core Program, a comprehensive set of e-learning courses that cover all the Company's capital processes and functions: Procurement, Production Processes, Quality, Technology, Products, Supply Chain Management, Commercial Front End, Administration & Finance, IT and Human Resources. Technical and managerial skill development is emphasized during the Global

State-of-the-art technologies, such as transmission electron microscopy, facilitate the analysis of steel microstructures and enhance the metallurgical research for tubular products.

Trainee (GT) Program, the Company's recently renovated young professional program. All newly-hired GTs worldwide gather to participate in a one-month Induction Camp. Intense training then continues throughout the 2-year program, according to the job family.

In late 2005, TenarisUniversity established an Industrial School to manage training at several educational levels in the Company's industrial and technical areas. The Industrial School will focus on areas such as: Steelmaking, Pipe Rolling and Finishing, Quality, Product Development, and Industrial Management. The establishment of the school constitutes an important step in the Company's ongoing efforts to strengthen the sense of a common industrial culture.




We are committed to improving the quality of life for those who live in the areas surrounding our plants. Working with local institutions, both public and private, to identify priorities and articulate actions, we help to build and equip schools, finance scholarships that reward academic excellence, sponsor cultural, sports and leisure events, improve medical and sanitation systems and promote employment. Through our community investments, we systematically encourage a connection with public and private organizations and the joint application of knowledge, experience, and best practices.

For example, in Campana, Argentina, we worked together with the municipal and provincial governments to build a new inpatient facility with 39 rooms at the public hospital and formed a partnership with three public welfare organizations and educational authorities to facilitate and ensure primary school education for children from impoverished communities. In Veracruz, Mexico, we took part in a housing program, the purpose of which was to improve the quality of life for families with income levels too low to obtain mortgages. In Bergamo, Italy, we sponsored an exhibition entitled *War is Over*, in which the Gallery of Modern and Contemporary Art (GAMEC), celebrated the 60th anniversary of the end of World War II.

## Health, safety and environment

Following the introduction of our common Health, Safety and Environment (HSE) Policy, we have been working on the implementation of the integrated HSE management system. The management system is based on the principles of sustainable development and follows the guidelines of international norms such as ISO 14000 and OHSA 18000, applying eco-efficiency and integral safety concepts in the whole system, from the

product design and industrial investment up to the operational and logistic planning and execution. At our mills, we have completed the identification and evaluation of the risk and environmental aspects, developed the management programs and procedures and started the training program, according to the chronogram established and the requirements of the guidelines.

As part of our safety program, we work constantly to improve its safety performance concentrating on two levels. On one, we upgrade the physical conditions of the workplace by continuously investing in new technologies, infrastructure and maintenance. On another, we work on attitudes and behavior relative to safety. We do this through innovative programs that reward safe behavior and by holding weekly meetings with managers, safety staff and workers at each of our plants to discuss accidents and share ideas for improving safety. For the fifth consecutive year, safety indicators have improved and our lost-time accident incident rate declined by 17% over the level of 2004. The cumulative improvement in this indicator over the past five years has been 55%.

For the continuous improvement of our environmental performance, we constantly review our operations and those of our sub-contractors to maximize the efficiency in the use of energy and material resources, the recycling –both at our own facilities and by third parties– of by-products, and the minimization in the generation of waste, emissions and effluents.

We also participate in programs, collaborating with local institutions in the communities where we operate, in order to contribute to the development of conditions that enhance social inclusiveness. Tenaris is involved in activities related to global environmental issues, like climate change or persistent organic pollutants abatement –among others– mainly through active participation in local and international organizations, such as the International Iron & Steel Institute Environmental Committee, the “Consejo Empresario Argentino para el Desarrollo Sostenible” (local branch of the World Business Council for Sustainable Development) and others.

Tenaris is a founder and co-sponsor of the Roberto Rocca Education Program, which was established in 2005 to provide scholarships and fellowships to talented undergraduate and graduate students in selected countries for the study of engineering and the applied sciences. The program's other sponsors are Ternium and Techint.

Named in honor of Tenaris's former Chairman, the Program aims to contribute to the development of human resources that can advance science and technology in the following countries: Argentina, Brazil, Italy, Mexico, Romania and Venezuela. The program is founded on the belief that industrial development is critical to economic development.

Around 340 scholarships will be awarded in 2006 to undergraduate students in participating countries for study at more than 30 domestic universities. The Program will also award up to six fellowships to help a select group of students pursue a Ph.D. at a university of their choice outside their country of origin. Key disciplines supported through the scholarships and fellowships include materials science and mechanical, chemical and electrical engineering.

In the coming years the program's sponsors expect to expand the program by increasing the number of awards in countries where scholarships and fellowships are already granted and extending the initiative to other countries.

# Roberto Rocca Education Program

# Qatar: LNG plants get larger

Tenaris was selected by CTJV, a joint venture of Chiyoda and Technip, to supply a 22,000 ton package of heat treated and non-heat treated pipes used in the construction of the QatarGas II LNG project in Qatar. The USD 12.8 billion project will employ two large liquefaction trains of 7.8 MMTA each.

This followed the award of pipe supply contracts for trains 3 and 4 of the RasGas project in 2004, when the capacity of each train was 4.7 MMTA.

As the risks in large construction projects increase, we are shortening the traditional supply chain to create value and reduce risk for customers by coordinating material planning and expediting services, reserving mill capacity in advance and ensuring on-time delivery of complete material packages at the project site.

. Location Ras Laffan, Qatar
. Customer Chiyoda and Snamprogetti
. Project description The fourth train of the RasGas project, with an annual LNG capacity of 4.7 million tons.

## Tenaris Process & Power Plant Services

# Corporate governance

Tenaris has one class of shares, with each share having equal rights including the entitlement to one vote at our shareholders' meetings. Our Articles of Association provide that the annual ordinary shareholders' meeting, which approves the annual financial statements and appoints the board of directors, occur each year on the first Wednesday of June.

## Board of directors

Management of Tenaris is vested in a board of directors. Our Articles of Association provide for a board of directors consisting of at least five and at most fifteen directors. The board of directors is required to meet as often as required by the interests of Tenaris and at least four times per year. A majority of the members of the directors present or represented at each board of directors' meeting constitutes a quorum, and resolutions may be adopted by the vote of a majority of the directors present or represented. 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 shareholders may dismiss all or any one director at any time, with or without cause, by resolution passed by majority vote, irrespective of the number of shares present or represented at the annual ordinary shareholders' meeting. In 2005, the board of directors met six times. The annual shareholders' meeting held on May 25, 2005 approved the appointment of nine directors, three of whom are independent.

## Audit committee

Tenaris has an audit committee consisting of three members, all of which are independent directors. The members of the audit committee are not eligible to participate in any incentive compensation plan for employees of the Company or any of its subsidiaries. Under our Articles of Association, as supplemented by the audit committee charter, the audit committee:

- assists the board of directors in fulfilling its oversight responsibilities relating to the integrity of our financial statements and system of internal controls and the independence and performance of the independent auditors;
- reviews material transactions between Tenaris and its subsidiaries with related parties to determine whether their terms are consistent with market conditions or are otherwise fair to the Company and its subsidiaries; and
- performs the other duties entrusted to it by the board of directors, particularly as regards relations with the independent auditors.

The audit committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and has direct access to the independent auditors as well as anyone at Tenaris and, subject to applicable laws, its subsidiaries.

Tenaris reproduces field conditions at its full scale testing facilities as closely as possible. OCTG and connections are rigorously tested to confirm their resistance to collapse, burst, fatigue, torque, compression and combined loads. Bending and post-welding properties are also measured for ultra-deepwater line pipe.

The audit committee is required to report to the board of directors on its activities and the adequacy of the system of internal control. In 2005, the audit committee met five times and on each occasion presented its report to the board of directors.

## Auditors

The annual accounts are audited by independent auditors. Auditors are appointed by the shareholders through a resolution passed by a simple majority vote at the annual shareholders' meeting, irrespective of the number of shares present or represented, on the audit committee's recommendation. Shareholders may determine the number and the term of office of the auditors, which may not exceed one year. As part of their duties, the auditors report directly to the audit committee.

Price Waterhouse & Co. S.R.L. served as our auditors during the 2005 fiscal year and are proposed for reappointment.

## Compensation

The compensation of the members of our board of directors is determined at the annual ordinary shareholders' meeting. The aggregate compensation earned by our directors and executive officers during 2005 amounted to USD 14.3 million.

## Corporate governance standards

Our corporate governance practices are governed by Luxembourg law (particularly the law of August 10, 1915 on commercial companies and the law of July 31, 1929, as amended) and our Articles of Association. As a Luxembourg company listed on the New York Stock Exchange (the "NYSE"), the Bolsa Mexicana de Valores, S.A. de C.V. (the "Mexican Stock Exchange"), the Bolsa de Comercio de Buenos Aires (the "Buenos Aires Stock Exchange") and Borsa Italiana S.p.A. (the "Italian Stock Exchange"), we are not required to comply with all of the corporate governance listing standards of these exchanges. We, however, believe that our corporate governance practices meet, in all material respects, the corporate governance standards that are generally required for controlled companies by all of the exchanges on which our securities trade.

The following is a summary of the significant ways that our corporate governance practices differ from the corporate governance standards required for controlled companies by the exchanges on which our shares trade. Our corporate governance practices may differ in non-material ways from the standards required by these exchanges that are not detailed here.

### Non-management directors' meetings

Under NYSE standards, non-management directors must meet at regularly scheduled executive sessions without management present and, if such group includes directors who are not independent, a meeting should be scheduled once per year including only independent directors. Neither Luxembourg law nor our Articles of Association require the holding of such meetings and we do not have a set policy for these meetings.

In addition, NYSE-listed companies are required to provide a method for interested parties to communicate directly with the non-management

directors as a group. While we do not have such a method, we have set up a compliance line for investors and other interested parties to communicate their concerns directly to the members of our audit committee.

### Audit committee

Under NYSE standards, all audit committee members of listed US companies are required to be financially literate or must acquire such financial knowledge within a reasonable period and at least one of its members shall have experience in accounting or financial administration. In addition, if a member of the audit committee is simultaneously a member of the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its members may serve, then in each case the board must determine whether the simultaneous service would prevent such member from effectively serving on the listed company's audit committee and shall publicly disclose its decision. No comparable provisions on audit committee membership exist under Luxembourg law or our Articles of Association. Our board of directors, however, 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 a financial expert as consultants.

### Standards for evaluating director independence

Under the NYSE standards, the board is required, on a case by case basis, to express an opinion with regard to the independence or lack of independence of each individual director. Neither Luxembourg law nor our Articles of Association requires the board to express such an opinion. In addition, the definition of "independent" under the rules of the exchanges on which our securities are listed differ in some non-material respects from the definition contained in our Articles of Association.

### Audit committee responsibilities

Pursuant to our Articles of Association, the audit committee shall assist the board of directors in fulfilling its oversight responsibilities relating to the integrity of our financial statements and system of internal controls and the independence and performance of the independent auditors. The audit committee is required to review material transactions (as defined by our Articles of Association) between us or our subsidiaries with related parties and also perform the other duties entrusted to it by the board. The NYSE requires certain matters to be set forth in the audit committee charter of US listed companies.

Our audit committee charter provides for many of the responsibilities that are expected from such bodies under the NYSE standard; however, due to our equity structure and holding company nature, the charter does not contain all such responsibilities, including provisions related to setting hiring policies for employees or former employees of independent auditors, discussion of risk assessment and risk management policies, and an annual performance evaluation of the audit committee.

The Mexican Stock Exchange requires the audit committee of listed companies to review and provide advice to the board of directors on certain matters, including transactions that involve the purchase or sale of 10% or more of the listed company's assets, the grant of guarantees involving liability for more than 30% of the value of the listed company's assets, and any transaction with a value of more than 1% of the listed company's assets. This requirement is expected to cease to apply in June 2006. Our audit committee does not serve in this capacity.

### Shareholder voting on equity compensation plans

Under NYSE standards, shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans. We do not currently offer equity based compensation to our directors, executive officers or employees, and therefore do not have a policy on this matter.

### Disclosure of corporate governance guidelines

NYSE-listed companies must adopt and disclose corporate governance guidelines. Neither Luxembourg law nor our Articles of Association require the adoption or disclosure of corporate governance guidelines. Our board of directors follows corporate governance guidelines consistent with our equity structure and holding company nature, but we have not codified them and therefore do not disclose them on our website.

### Code of business conduct and ethics

Under NYSE standards, listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Neither Luxembourg law nor our Articles of Association require the adoption or disclosure of such a code of conduct. We, however, have adopted a code of conduct that applies to all directors, officers and employees that is posted on our website and which complies with the NYSE's requirements, except that it does not require the disclosure of waivers of the code for directors and officers. In addition, we have adopted a supplementary code of ethics for senior financial officers, which is also posted on our website.

### Chief executive officer certification

A chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. In accordance with NYSE rules applicable to foreign private issuers, our chief executive officer is not required to provide the NYSE with this annual compliance certification. However, in accordance with NYSE rules applicable to all listed companies, our chief executive officer must promptly notify the NYSE in writing after any of our executive officers becomes aware of any material noncompliance with any applicable provision of the NYSE's corporate governance standards. In addition, we must submit an executed written affirmation annually and an interim written affirmation each time a change occurs to the board or the audit committee.

The Scanning Electronic Microscope (SEM) allows us to identify on samples if there is any defect on the steel manufacturing or during the pipe manufacturing process through magnifications showing the contained elements and their amount.

# Board of directors

Chairman and Chief Executive Officer — Paolo Rocca

Vice-President Finance — Guillermo Vogel

Roberto Bonatti
Carlos Franck
Bruno Marchettini
Roberto Monti (*)
Gianfelice Mario Rocca
Jaime Serra Puche (*)
Amadeo Vázquez y Vázquez (*)

(*) Independent members of the audit committee

Secretary — Cecilia Bilesio

# Executive officers

Chief Executive Officer
Paolo Rocca

Chief Operating Officer
Alberto Valsecchi

Chief Financial Officer
Carlos Condorelli

Commercial Director
Germán Curá

Supply Chain Director
Alejandro Lammertyn

Human Resources Director
Marco Radnic

Technology Director
Carlos San Martín

Information Technology Director
Giancarlo Miglio

Industrial Coordination Director
Sergio Tosato

Planning Director
Alberto Iperti

European Area Manager
Vincenzo Crapanzano

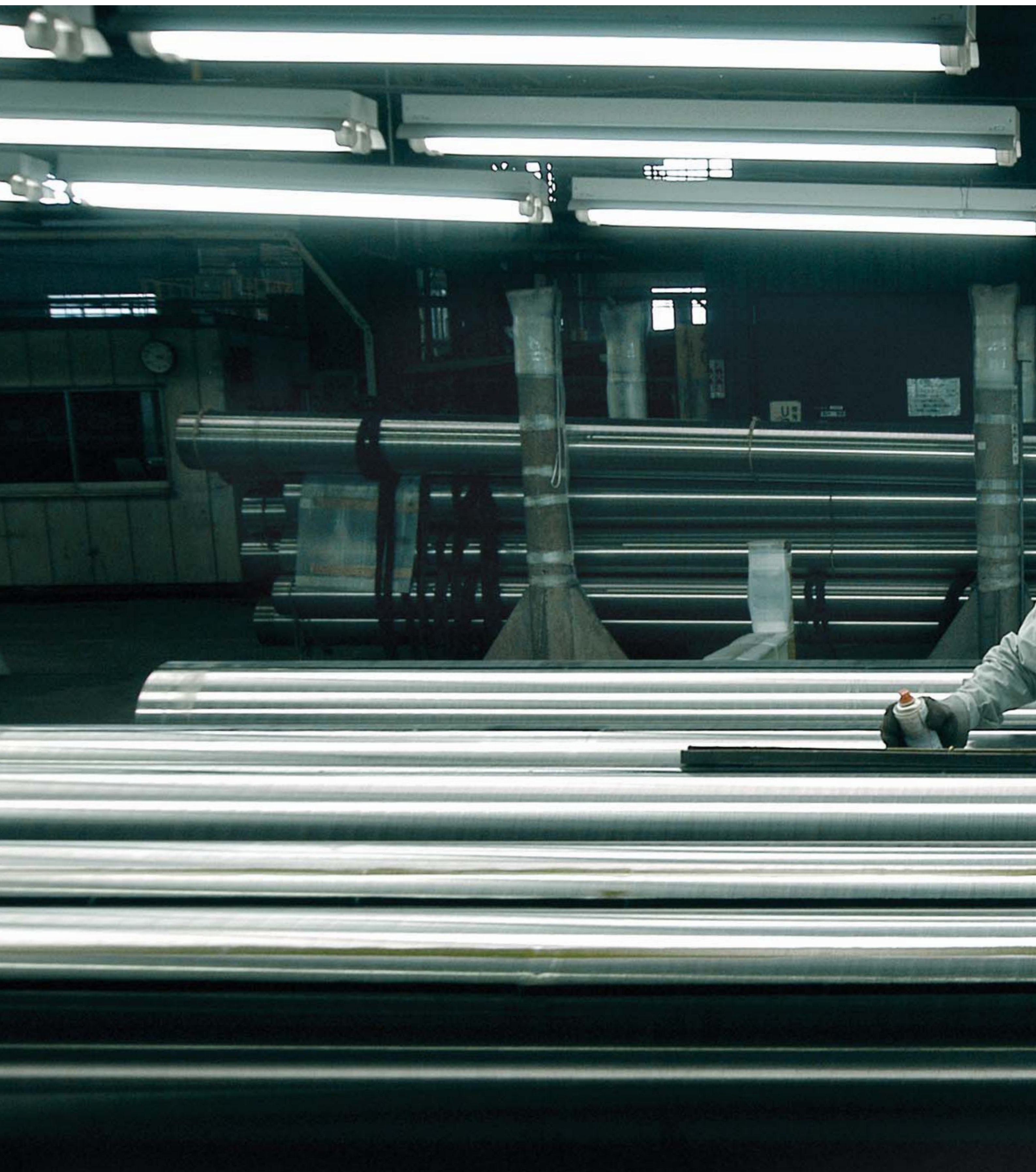
Southern Cone Area Manager
Guillermo Noriega

Mexican Area Manager
Sergio De la Maza

Managing Director, Japanese Operations
Marcelo Ramos

Managing Director, Welded Pipe Operations
Ricardo Soler

Procurement Director
Renato Catallini



The development and improvement of corrosion resistant alloys is an important part of our R&D program. Recent achievements include the application of TenarisBlue® Dopeless™ technology with 13 Cr and 25 Cr steels.

# Consolidated financial statements

for the years ended December 31, 2005, 2004 and 2003

# Operating and financial review

This review of Tenaris's results of operations and financial condition is based on, and should be read in conjunction with, the audited consolidated financial statements of Tenaris and the related notes included elsewhere in this annual report. It compares Tenaris's results on a consolidated basis for the fiscal year ended December 31, 2005 with its results for the fiscal year ended December 31, 2004. Tenaris prepares its consolidated financial statements in conformity with International Financial Reporting Standards (IFRS), which differ in certain significant respects from US GAAP and other national accounting standards.

## Results of operations

The following table sets forth, for the periods indicated, selected financial data from our consolidated income statement and expresses our operating and other costs and expenses as a percentage of net sales.

Selected financial data (all amounts in USD thousands)

| YEAR ENDED DECEMBER 31 | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| Net sales | 6,736,197 | 100.0% | 4,136,063 | 100.0% | 3,179,652 | 100.0% |
| Cost of sales | (3,942,758) | (58.5%) | (2,776,936) | (67.1%) | (2,207,827) | (69.4%) |
| **Gross profit** | **2,793,439** | **41.5%** | **1,359,127** | **32.9%** | **971,825** | **30.6%** |
| Selling, general and administrative expenses | (842,574) | (12.5%) | (672,449) | (16.3%) | (566,835) | (17.8%) |
| Other operating income and expenses | (2,419) | (0.0%) | 126,840 | 3.1% | (116,800) | (3.7%) |
| **Operating income** | **1,948,446** | **28.9%** | **813,518** | **19.7%** | **288,190** | **9.1%** |
| Financial income (expenses), net | (109,738) | (1.6%) | 5,802 | 0.1% | (29,420) | (0.9%) |
| **Income before equity in earnings of associated companies and income tax** | **1,838,708** | **27.3%** | **819,320** | **19.8%** | **258,770** | **8.1%** |
| Equity in earnings of associated companies | 117,377 | 1.7% | 206,037 | 5.0% | 27,585 | 0.9% |
| **Income before income tax** | **1,956,085** | **29.0%** | **1,025,357** | **24.8%** | **286,355** | **9.0%** |
| Income tax | (568,753) | (8.4%) | (220,376) | (5.3%) | (63,918) | (2.0%) |
| **Net income** | **1,387,332** | **20.6%** | **804,981** | **19.5%** | **222,437** | **7.0%** |
| **Income attributable to equity holders of the Company** | **1,277,547** | **19.0%** | **784,703** | **19.0%** | **210,308** | **6.6%** |
| **Income attributable to minority interest** | **109,785** | **1.6%** | **20,278** | **0.5%** | **12,129** | **0.4%** |

## Sales volumes

The following table shows our sales volumes of seamless and welded pipe products.

Metric tons

| SALES VOLUME | 2005 | 2004 | Increase/ (Decrease) |
|---|---|---|---|
| North America | 843,000 | 757,000 | 11% |
| Europe | 666,000 | 679,000 | (2%) |
| Middle East & Africa | 524,000 | 421,000 | 24% |
| Far East & Oceania | 404,000 | 412,000 | (2%) |
| South America | 433,000 | 377,000 | 15% |
| **Total seamless pipes** | **2,870,000** | **2,646,000** | **8%** |
| Welded pipes | 501,000 | 316,000 | 59% |
| **Total steel pipes** | **3,371,000** | **2,963,000** | **14%** |

Sales volume of seamless pipes increased by 8% to 2,870,000 tons in 2005 from 2,646,000 tons in 2004. Demand for our seamless pipe products from oil and gas customers was particularly strong reflecting increased investment in oil and gas exploration and production activity whereas demand from industrial and automotive customers was more constrained.

- North America. In North America, demand for our seamless pipe products increased due to higher exploration and production activity in Canada, including steam-assisted gravity drainage, or SAGD projects, and increased sales of OCTG products in the US.
- Europe. In Europe, the decrease in sales was primarily due to lower sales to industrial customers reflecting a reduction in mill capacity allocation to lower margin industrial products in response to increased demand from the energy sector. Sales of OCTG and line pipe products to oil and gas customers and for process and power plant construction increased.
- Middle East & Africa. In the Middle East and Africa, demand increased due to higher oil and gas exploration and production activity in the Middle East, particularly in Saudi Arabia, and higher sales of flowlines and risers for West African deepwater projects.
- Far East & Oceania. In the Far East and Oceania, the decrease in sales was primarily due to lower sales of line pipe for process and power plant construction as well as to lower sales to industrial customers in Japan. Sales of OCTG products increased particularly in Indonesia and China.
- South America. In South America, demand increased reflecting higher levels of drilling activity in the region, particularly in Venezuela and Ecuador.

Sales volume of welded pipe products increased 59% to 501,000 tons in 2005 from 316,000 tons in 2004. This increase reflects substantially higher sales for gas pipeline projects in the Brazilian and Argentine markets.

Sales of electric energy in Italy decreased 3% to 2.9 TWh in 2005 from 3.0 TWh in 2004 and sales of natural gas increased by 44% to 941 million scm in 2005 from 652 million scm in 2004.

## Net sales

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

Millions of USD

| | 2005 | 2004 | Increase/ (Decrease) |
|---|---|---|---|
| Seamless pipes | 5,124.0 | 3,273.3 | 57% |
| Welded pipes | 845.1 | 348.1 | 143% |
| Energy | 526.4 | 417.9 | 26% |
| Others | 240.7 | 96.8 | 149% |
| **Total** | **6,736.2** | **4,136.1** | **63%** |

The following table indicates the distribution of our net sales by business segment for the periods indicated:

Percentage of net sales

| | 2005 | 2004 |
|---|---|---|
| Seamless pipes | 76% | 79% |
| Welded pipes | 13% | 8% |
| Energy | 8% | 10% |
| Others | 4% | 2% |
| **Total** | **100%** | **100%** |

Net sales in 2005 increased 63% compared to 2004, which primarily reflects strong sales growth in our seamless pipes business and a good year for our welded pipes business, but sales of energy and other products also increased. Net sales in 2006 are expected to show further growth led by higher net sales of seamless pipes, partially offset by lower sales of welded pipes.

Net sales of seamless pipes rose by 57%, reflecting strong market demand for our products, particularly for high-end products used in demanding applications. Average selling prices for seamless pipes increased by 44% to USD 1,785 per ton in 2005 from USD 1,237 per ton in 2004.

Net sales of welded pipes, which included USD 60 million in sales of metal structures made by our Brazilian welded pipe subsidiary in 2005 and USD 68 million of such sales in 2004, increased 143% reflecting increased demand from gas pipeline projects in Brazil and Argentina and higher average selling prices.

Net sales of electricity and natural gas to third parties by Dalmine Energie increased by 26% reflecting higher prices for electricity and natural gas and higher sales of natural gas.

Net sales of other goods and services increased 149% due to sales of pre-reduced hot briquetted iron, or HBI, from the plant in Venezuela that we acquired in July 2004 and higher sales of sucker rods used in oil extraction.

### Cost of sales

The following table shows our cost of sales, expressed as a percentage of net sales, by business segment for the periods indicated:

Percentage of net sales

| | 2005 | 2004 |
|---|---|---|
| Seamless pipes | 53% | 63% |
| Welded pipes | 66% | 72% |
| Energy | 98% | 95% |
| Others | 63% | 56% |
| **Total** | **59%** | **67%** |

The decrease in cost of sales, expressed as a percentage of net sales, resulted primarily from an improvement of gross margin recorded on the sale of seamless pipe products.

Cost of sales for seamless pipe products, expressed as a percentage of net sales, decreased to 53% in 2005 compared to 63% in 2004 as higher average selling prices offset increased raw material, energy and labor costs and we sold higher volumes of higher margin, high-end products.

Cost of sales for welded pipe products, expressed as a percentage of net sales, decreased to 66% in 2005, compared to 72% in 2004, as higher average selling prices and volume-related efficiencies offset increased raw material prices.

Cost of sales for energy products, expressed as a percentage of net sales, increased to 98% from 95%. The gross margin on our sales of energy products declined during 2005 but is expected to recover partially in 2006.

Cost of sales for other products, expressed as a percentage of net sales, increased primarily due to a first full year of sales of HBI with margins lower than margins on the sale of sucker rods, which represented a larger proportion of sales of other products in 2004.

### Selling, general and administrative expenses, or SG&A

SG&A declined as a percentage of net sales to 12.5% in 2005 compared to 16.3% in 2004 but rose in absolute terms to USD 842.6 million compared to USD 672.4 million. SG&A rose 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 USD 2.4 million in 2005, compared to a gain of USD 126.8 million in 2004. The result in 2004 included a gain of USD 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.

### Financial income (expenses), net

Net financial expenses totalled USD 109.7 million in 2005, compared to net financial income of USD 5.8 million in 2004. Net interest expenses decreased to USD 29.2 million compared to USD 32.7 million, as the decrease in the net debt position offset the impact of increases in interest rates. Tenaris recorded a loss of USD 86.6 million on net foreign exchange transactions and changes in the fair value of derivative instruments in 2005, compared to a gain of USD 33.1 million in 2004. These gains and losses on net foreign exchange transactions and the changes in the fair value of derivative instruments are 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 US dollar in accordance with IFRS.

### Equity in earnings of associated companies

Equity in earnings of associated companies generated a gain of USD 117.4 million in 2005, compared to a gain of USD 206.0 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 USD 206.0 million recorded in 2004 included non-recurring gains of USD 135.0 million in respect of the conversion of a subordinated loan into equity and the reversal of an impairment provision.

### Income tax charges

Income tax charges of USD 568.8 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 USD 220.4 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.

### Net income

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

### Income attributable to equity holders of the Company

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

### Income attributable to minority interest

Income attributable to minority interest rose to USD 109.8 million in 2005, compared to USD 20.3 million in 2004 reflecting an improvement in operating and financial results at Confab, our Brazilian welded pipe manufacturing subsidiary in which minority interests hold 61% of the total shares and NKKTubes, our Japanese seamless pipe manufacturing subsidiary in which minority interests hold 49% of the shares.

## Liquidity and capital resources

Our financing strategy is to maintain adequate financial resources and access to additional liquidity. During 2005,

cash flows from operations provided the principal source of funding but we also rolled over some of our short-term borrowing and substituted some short-term borrowing with loans of longer maturity.

We believe that funds from operations, availability of liquid financial assets and our access to external borrowing 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 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, which include highly liquid short-term investments. We primarily used these funds to finance our working capital and capital expenditure requirements, to make acquisitions and to distribute dividends to our shareholders.

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 US dollars, and limit our holdings of other currencies to the minimum required to fund our cash operating needs. As of December 31, 2005 US dollar denominated liquid assets represented 83% of total liquid financial assets. Liquid financial assets as a whole (excluding current investments) were 10.5% of total assets compared to 5.5% at the end of 2004. For further information on our liquidity, please see Note 19 to the consolidated financial statements included elsewhere in this annual report.

### Historical cash flows

The following table shows our summary cash flows for the last three years:

Thousands of USD

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net cash provided by operating activities | 1,295,323 | 98,288 | 275,636 |
| Net cash used in investing activities | (292,791) | (213,396) | (252,245) |
| Net cash (used in) provided by financing activities | (604,129) | 170,558 | (83,337) |
| **Increase (decrease) in cash and cash equivalents** | **398,403** | **55,450** | **(59,946)** |
| Effect of exchange rate changes | (11,636) | 344 | 3,089 |
| **Cash and cash equivalents at the beginning of the period** | **293,824** | **238,030** | **294,887** |
| **Cash and cash equivalents at the end of the period** | **680,591** | **293,824** | **238,030** |

### Operating activities

Net cash provided by operations during 2005 increased significantly to USD 1,295.3 million compared to USD 98.3 million in 2004 reflecting the strong increase in operating income to USD 1,948.4 million in 2005 from USD 813.5 million in 2004 and a smaller increase in working capital which increased by USD 433.9 million in 2005 compared to USD 621.2 million in 2004.

The working capital increase was comprised mainly of:

- an increase in inventories of USD 101.1 million, reflecting primarily an increase in business activity and an increase in the cost of goods in process;
- a net increase in trade receivables of USD 387.2 million, reflecting higher quarterly net sales, partially offset by an increase in trade payables of USD 32.6 million.

Additionally, the net sum of USD 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 net sum of USD 113.8 million paid in 2004.

### Investing activities

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

- Capital expenditure increased to USD 284.5 million in 2005 compared to USD 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. Capital expenditure is expected to show a further significant increase in 2006 as the construction of the power plant and the investment program advance.
- We spent USD 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 USD 47.9 million, compared to USD 97.6 million in 2004.
- We received distributions of USD 59.1 million on our indirect investments in Sidor in 2005, out of which proceeds we extended convertible loans to Ternium which amounted to USD 40.4 million including accrued interest at December 31, 2005, compared to USD 48.6 million in 2004. On February 1, 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 USD 604.1 million in 2005, compared to net cash provided by financing activities in 2004 of USD 170.6 million. We decreased borrowings by USD 240.4 million in 2005 compared to an increase of USD 305.6 million in 2004 and we increased dividends paid to USD 349.4 million in 2005 from USD 135.1 million in 2004. Dividends paid in 2005 included USD 149.9 million distributed as an interim dividend with respect to the annual dividend to be approved by the shareholders' meeting in respect of the 2005 fiscal year.

## Principal sources of funding

### Financial liabilities

Total financial debt decreased by USD 249.0 million to USD 1,010.3 million from USD 1,259.3 million at December 31, 2004.

Our financial liabilities consist of bank loans, overdrafts, and financial leases. These facilities are mainly denominated in US dollars and Euros. As of December 31, 2005 US dollar-denominated financial liabilities and Euro-denominated financial liabilities represented 68% and 21%, respectively, of total financial liabilities; in addition, a substantial proportion of our financial liabilities denominated in other currencies are swapped to the US dollar. For further information about our financial liabilities, please see Note 20 to our consolidated financial statements.

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.

| | 2005 | 2004 |
|---|---|---|
| Bank borrowings | 5.14% | 3.89% |
| Debentures and other loans | 4.51% | 3.48% |
| Finance lease liabilities | 3.14% | 2.99% |

The maturity of our financial liabilities is as follows:

| AT DECEMBER 31, 2005 | 1 year or less | 1 - 2 years | 2 - 3 years | 3 - 4 years | 4 - 5 years | Over 5 years | **TOTAL** |
|---|---|---|---|---|---|---|---|
| Financial leases | 1,502 | 1,184 | 970 | 739 | 678 | 1,854 | **6,927** |
| Other borrowings | 330,678 | 155,337 | 207,708 | 159,343 | 87,843 | 62,456 | **1,003,365** |
| **Total borrowings** | **332,180** | **156,521** | **208,678** | **160,082** | **88,521** | **64,310** | **1,010,292** |

Tenaris's current debt to total debt ratio decreased from 0.67 as of December 31, 2004 to 0.33 as of December 31 2005 due to the substitution of short-term debt through the issuance of USD 497 million in syndicated loans.

### Principal borrowings

Significant borrowings include:

- USD 300.0 million syndicated loan issued by Tamsa in March, 2005, maturing in March, 2010.
- USD 125.0 million syndicated loan issued by Siderca in April, 2005, maturing in April, 2008.
- USD 144.0 million syndicated loan granted to Dalmine in June 2005, of which USD 72.0 million had been disbursed as of December 31, 2005.

The main financial covenants related to these loan agreements are commitments not to incur in additional indebtedness above agreed limits or pledges of certain assets, and compliance with certain financial ratios as calculated on each company's financial statements.

Additionally, Tenaris's total borrowings include USD 204.8 million secured by certain properties of Dalmine and Confab.

As of December 31, 2005, Tenaris was in compliance with all of its financial covenants. Management believes that current debt covenants allow the Company a high degree of operational and financial flexibility and do not impair its ability to obtain additional financing at competitive costs.

PRICEWATERHOUSECOOPERS

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# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Tenaris S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements 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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 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 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 32 and 33 to the consolidated financial statements.

**Price Waterhouse & Co. S.R.L.**
by

**Daniel A. López Lado**
(Partner)

Buenos Aires, Argentina
March 1, 2006 except as to Notes 32 and 33
which is as of April 7, 2006

# Consolidated income statement

TENARIS S.A.

Consolidated financial statements for the years ended December 31, 2005, 2004 and 2003.

All amounts in USD thousands, unless otherwise stated

| YEAR ENDED DECEMBER 31 | NOTES | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Net sales | 1 | 6,736,197 | 4,136,063 | 3,179,652 |
| Cost of sales | 2 | (3,942,758) | (2,776,936) | (2,207,827) |
| **Gross profit** | | **2,793,439** | **1,359,127** | **971,825** |
| Selling, general and administrative expenses | 3 | (842,574) | (672,449) | (566,835) |
| Other operating income | 5 (I) | 11,986 | 152,591 | 8,859 |
| Other operating expenses | 5 (II) | (14,405) | (25,751) | (125,659) |
| **Operating income** | | **1,948,446** | **813,518** | **288,190** |
| Financial income (expenses), net | 6 | (109,738) | 5,802 | (29,420) |
| **Income before equity in earnings of associated companies and income tax** | | **1,838,708** | **819,320** | **258,770** |
| Equity in earnings of associated companies | 7 | 117,377 | 206,037 | 27,585 |
| **Income before income tax** | | **1,956,085** | **1,025,357** | **286,355** |
| Income tax | 8 | (568,753) | (220,376) | (63,918) |
| **Income for the year** (1) | | **1,387,332** | **804,981** | **222,437** |
| INCOME FOR THE YEAR ATTRIBUTABLE TO (1) | | | | |
| Equity holders of the Company | | 1,277,547 | 784,703 | 210,308 |
| Minority interest | | 109,785 | 20,278 | 12,129 |
| | | **1,387,332** | **804,981** | **222,437** |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (1) | | | | |
| **Weighted average number of ordinary shares outstanding (in thousands)** | 9 | **1,180,537** | **1,180,507** | **1,167,230** |
| **Earnings per share (US dollars per share)** | 9 | **1.08** | **0.66** | **0.18** |
| **Earnings per ADS (US dollars per ADS)** | 9 | **10.82** | **6.65** | **1.80** |

(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 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. See Section IV (a).

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

# Consolidated balance sheet

All amounts in USD thousands

| DECEMBER 31 | NOTES | 2005 | | 2004 | |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment, net | 10 | 2,230,038 | | 2,164,601 | |
| Intangible assets, net | 11 | 159,099 | | 49,211 | |
| Investments in associated companies | 12 | 257,234 | | 99,451 | |
| Other investments | 13 | 25,647 | | 24,395 | |
| Deferred tax assets | 21 | 194,874 | | 161,173 | |
| Receivables | 14 | 65,852 | **2,932,744** | 151,365 | **2,650,196** |
| CURRENT ASSETS | | | | | |
| Inventories | 15 | 1,376,113 | | 1,269,470 | |
| Receivables and prepayments | 16 | 143,282 | | 279,450 | |
| Current tax assets | 17 | 102,455 | | 94,996 | |
| Trade receivables | 18 | 1,324,171 | | 936,931 | |
| Other investments | 19 (I) | 119,907 | | 119,666 | |
| Cash and cash equivalents | 19 (II) | 707,356 | **3,773,284** | 311,579 | **3,012,092** |
| **Total assets** | | | **6,706,028** | | **5,662,288** |
| EQUITY AND LIABILITIES – SECTION IV (A) | | | | | |
| CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS | | | | | |
| Share capital | | 1,180,537 | | 1,180,537 | |
| Legal reserves | | 118,054 | | 118,054 | |
| Share premium | | 609,733 | | 609,733 | |
| Other distributable reserve | | – | | 82 | |
| Currency translation adjustments | | (59,743) | | (30,020) | |
| Other reserves | | 2,718 | | – | |
| Retained earnings | | 1,656,503 | **3,507,802** | 617,538 | **2,495,924** |
| MINORITY INTEREST | | | **268,071** | | **165,271** |
| **Total equity** | | | **3,775,873** | | **2,661,195** |
| LIABILITIES | | | | | |
| NON-CURRENT LIABILITIES | | | | | |
| Borrowings | 20 | 678,112 | | 420,751 | |
| Deferred tax liabilities | 21 | 353,395 | | 371,975 | |
| Other liabilities | 22 (I) | 154,378 | | 172,442 | |
| Provisions | 23 (II) | 43,964 | | 31,776 | |
| Trade payables | | 1,205 | **1,231,054** | 4,303 | **1,001,247** |
| CURRENT LIABILITIES | | | | | |
| Borrowings | 20 | 332,180 | | 838,591 | |
| Current tax liabilities | | 452,534 | | 222,735 | |
| Other liabilities | 22 (II) | 138,875 | | 194,945 | |
| Provisions | 24 (II) | 36,945 | | 42,636 | |
| Customer advances | | 113,243 | | 108,847 | |
| Trade payables | | 625,324 | **1,699,101** | 592,092 | **1,999,846** |
| **Total liabilities** | | | **2,930,155** | | **3,001,093** |
| **Total equity and liabilities** | | | **6,706,028** | | **5,662,288** |

Contingencies, commitments and restrictions to the distribution of profits are disclosed in Note 26.

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

# Consolidated statement of changes in equity

All amounts in USD thousands

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | |
|---|---|---|---|
| | Share capital | Legal reserves | Share premium |
| **Balance at January 1, 2005** | **1,180,537** | **118,054** | **609,733** |
| Effect of adopting IFRS 3 – Section IV | – | – | – |
| **Adjusted balance at January 1, 2005** | **1,180,537** | **118,054** | **609,733** |
| Currency translation differences | – | – | – |
| Increase in equity reserves in Ternium – Note 28 | – | – | – |
| Acquisition of minority interest | – | – | – |
| Dividends paid in cash | – | – | – |
| Income for the year | – | – | – |
| **Balance at December 31, 2005** | **1,180,537** | **118,054** | **609,733** |

(*) The distributable reserve and retained earnings calculated according to Luxembourg Law are disclosed in Note 26 (V).
The accompanying notes are an integral part of these consolidated financial statements.

All amounts in USD thousands

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | |
|---|---|---|---|
| | Share capital | Legal reserves | Share premium |
| **Balance at January 1, 2004** | **1,180,288** | **118,029** | **609,269** |
| Currency translation differences | – | – | – |
| Capital increase and acquisition of minority interest | 249 | 25 | 464 |
| Dividends paid in cash | – | – | – |
| Income for the year | – | – | – |
| **Balance at December 31, 2004** | **1,180,537** | **118,054** | **609,733** |

All amounts in USD thousands

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | |
|---|---|---|---|
| | Share capital | Legal reserves | Share premium |
| **Balance at January 1, 2003** | **1,160,701** | **116,070** | **587,493** |
| Currency translation differences | – | – | – |
| Capital increase, exchange transaction and acquisition of minority interest | 19,587 | 1,959 | 21,776 |
| Dividends paid | – | – | – |
| Income for the year | – | – | – |
| **Balance at December 31, 2003** | **1,180,288** | **118,029** | **609,269** |

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

| Other distributable reserve(*) | Currency translation adjustment | Other reserves | Retained earnings(*) | Minority interest – Section IV (a) | TOTAL 2005 |
|---|---|---|---|---|---|
| **82** | **(30,020)** | – | **617,538** | **165,271** | **2,661,195** |
| – | – | – | **110,775** | – | **110,775** |
| **82** | **(30,020)** | – | **728,313** | **165,271** | **2,771,970** |
| – | (29,723) | – | – | 7,180 | **(22,543)** |
| – | – | 2,718 | – | – | **2,718** |
| – | – | – | – | 153 | **153** |
| (82) | – | – | (349,357) | (14,318) | **(363,757)** |
| – | – | – | 1,277,547 | 109,785 | **1,387,332** |
| – | **(59,743)** | **2,718** | **1,656,503** | **268,071** | **3,775,873** |

| Other distributable reserve | Currency translation adjustment | Retained earnings | Minority interest – Section IV (a) | TOTAL 2004 |
|---|---|---|---|---|
| **96,555** | **(34,194)** | **(128,667)** | **119,984** | **1,961,264** |
| – | 4,174 | – | 9,478 | **13,652** |
| 82 | – | – | 20,457 | **21,277** |
| (96,555) | – | (38,498) | (4,926) | **(139,979)** |
| – | – | 784,703 | 20,278 | **804,981** |
| **82** | **(30,020)** | **617,538** | **165,271** | **2,661,195** |

| Other distributable reserve | Currency translation adjustment | Retained earnings | Minority interest – Section IV (a) | TOTAL 2003 |
|---|---|---|---|---|
| **206,744** | **(34,503)** | **(342,451)** | **186,783** | **1,880,837** |
| – | 309 | – | 16,738 | **17,047** |
| 4,813 | – | 3,476 | (81,602) | **(29,991)** |
| (115,002) | – | – | (14,064) | **(129,066)** |
| – | – | 210,308 | 12,129 | **222,437** |
| **96,555** | **(34,194)** | **(128,667)** | **119,984** | **1,961,264** |

# Consolidated cash flow statement

All amounts in USD thousands

| YEAR ENDED DECEMBER 31 | NOTES | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income for the year | | 1,387,332 | 804,981 | 222,437 |
| ADJUSTMENTS FOR | | | | |
| Depreciation and amortization | 10 & 11 | 214,227 | 208,119 | 199,799 |
| Income tax accruals less payments | 30 (II) | 149,487 | 44,659 | (138,570) |
| Equity in earnings of associated companies | 7 | (117,377) | (206,037) | (27,585) |
| Interest accruals less payments, net | 30 (III) | 1,919 | 16,973 | (3,032) |
| Power plant impairment | 26 (IV) (D) | – | 11,705 | – |
| Changes in provisions | 23 & 24 | 6,497 | 11,455 | (13) |
| Result from disposition of investments in associated companies | | – | – | (1,018) |
| Proceeds from Fintecna arbitration award net of BHP settlement | 26 (I) | 66,594 | (126,126) | 114,182 |
| Changes in working capital [(1)] | 30 (I) | (433,939) | (621,187) | (107,156) |
| Other, including currency translation adjustment | | 20,583 | (46,254) | 16,592 |
| **Net cash provided by operating activities** | | **1,295,323** | **98,288** | **275,636** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Capital expenditures | 10 & 11 | (284,474) | (183,312) | (162,624) |
| Acquisitions of subsidiaries | 28 (A) | (48,292) | (97,595) | (65,283) |
| Convertible loan to associated companies | 28 (D) | (40,358) | – | (31,128) |
| Proceeds from disposal of property, plant and equipment and intangible assets | | 9,995 | 12,054 | 5,965 |
| Proceeds from sales of investments in associated companies | | – | – | 1,124 |
| Dividends and distributions received from associated companies | 12 | 59,127 | 48,598 | – |
| Changes in restricted bank deposits | | 11,452 | (13,500) | – |
| Investments in short term securities | | (119,907) | – | – |
| Reimbursement from trust funds | | 119,666 | 20,359 | – |
| Acquisitions of minority interest | | – | – | (299) |
| **Net cash used in investing activities** | | **(292,791)** | **(213,396)** | **(252,245)** |

(1) In 2004, includes USD 113.8 million corresponding to the first two installments paid in connection with the final settlement of BHP claim.

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

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | (349,439) | (135,053) | (115,002) |
| Dividends paid to minority interest in subsidiaries | (14,318) | (31) | (14,064) |
| Proceeds from borrowings | 1,222,861 | 632,095 | 552,446 |
| Repayments of borrowings | (1,463,233) | (326,453) | (506,717) |
| **Net cash (used in) provided by financing activities** | **(604,129)** | **170,558** | **(83,337)** |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **398,403** | **55,450** | **(59,946)** |
| MOVEMENT IN CASH AND CASH EQUIVALENTS | | | |
| At the beginning of the year | 293,824 | 238,030 | 294,887 |
| Effect of exchange rate changes | (11,636) | 344 | 3,089 |
| Increase in cash and cash equivalents | 398,403 | 55,450 | (59,946) |
| **At December 31** | **680,591** | **293,824** | **238,030** |
| NON-CASH FINANCING ACTIVITIES | | | |
| Fair value adjustment of minority interest acquired | – | – | (925) |
| Common stock issued in acquisition of minority interest | – | 820 | 51,611 |
| Conversion of debt to equity in subsidiaries | – | 13,072 | – |

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

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# I. General information

Tenaris S.A. (the "Company" or "Tenaris"), a Luxembourg corporation (société anonyme holding), was incorporated on December 17, 2001, as a holding company for investments in steel pipe manufacturing and distributing operations. The Company holds, either directly or indirectly, controlling interests in various subsidiaries. A list of the Company's investment holdings is included in Note 31.

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 Tenaris board of directors on March 1, 2006.

# 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 US dollars ("USD").

At December 31, 2005, 2004 and 2003, the financial statements of Tenaris and its subsidiaries have been consolidated.

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 Company has applied IFRS 3 for all business combinations after March 31, 2004.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. 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 the Company's 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, the fact that the functional currency of some subsidiaries is their respective local currency, generates some financial gains (losses) arising from intercompany transactions, that are included in the consolidated income statement under Financial income (expenses), net.

See Note 31 for the list of the consolidated subsidiaries.

### 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's 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 in IAS 28, "Investments in Associates". At December 31, 2005, Tenaris held 15.0% of Ternium's common stock. The Company's investment in Ternium is carried at historical 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 USD 229.7 million, the carrying value of the investments exchanged. This value is USD 22.6 million less than Tenaris's 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

The Company is organized around four major business segments: Seamless, Welded and other metallic products, Energy and Others. A business segment is a group of assets and operations that are subject to risks and returns that are different from those of other business segments.

The secondary reporting format is based on geographical segments. For geographical purposes, Tenaris groups its operations into five segments: South America, Europe,

North America, Middle East and Africa, and Far East and Oceania. Allocation of net sales is based on the geographic location of the Company's customers, while 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 US dollar. The US dollar is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company's global operations. Generally, the functional currency of Tenaris's subsidiaries is the respective local currency. The Company's Argentine operations, however, which consist of Siderca S.A.I.C. ("Siderca") and its Argentine subsidiaries, have determined their functional currency to be the US dollar, based on the following considerations:

- Sales are mainly negotiated, denominated and settled in US dollars. If priced in a currency other than the US dollar, the price considers exposure to fluctuation in the rate of exchange rate versus the US dollar;
- Prices of critical raw materials and inputs are priced and settled in US 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 US dollars.

In addition to Siderca, the Company's commercial network subsidiaries and intermediate holding subsidiaries also use the US 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 US dollar are translated into US 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 income (expenses), net 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.

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.

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 amortize 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.

Estimating useful lives for depreciation is particularly difficult as the service lives of assets are also impacted by maintenance and changes in technology, and the Company's ability to adapt technological innovation to the existing asset base. As a result, management considers estimation of asset lives as a critical accounting estimate. Management's reestimation of asset useful lives did not materially affect depreciation expenses for 2005.

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. Impairment of non-financial assets

Events and circumstances may potentially affect the recoverability of the carrying value of tangible and intangible assets, including investments in associated and other companies. The carrying value of other non-financial assets is evaluated whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Goodwill is tested for impairment on an annual basis. Assessment of the recoverability of the carrying value of goodwill and other non-financial assets require a significant judgment. The Company evaluates goodwill allocated to the operating units for impairment on an annual basis in accordance with IAS 36, "Impairment of Assets". See AP G.

Although management believes its 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 other non-financial assets may be different from amounts currently recorded and materially affect asset values and results of operations.

## G. Intangible assets

### 1. Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Company's 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 the Company during the three years covered by these financial statements. Goodwill is included in Intangible assets, net on the balance sheet.

Gains and losses on the disposal of a business include the carrying amount of any goodwill related to the business being sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of 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.

#### 2. Information systems projects

Generally, costs associated with developing or maintaining computer software programs are 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 beyond 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 and patents

Expenditures on purchased patents, trademarks, technology transfer and licenses are capitalized and amortized using the straight-line method over their estimated useful lives.

#### 4. Research and development

Research expenditures are recognized as expenses as incurred. Development costs are recorded as Cost of sales in the income statement as incurred because they do not fulfill the criteria for capitalization. Research and development expenditures for the years ended 2005, 2004 and 2003 totaled USD 34.7, USD 26.3 and USD 21.9 million, respectively.

### H. Other investments

Other investments consist primarily of investments in financial debt instruments and equity investments where the Company holds less than 20% of the outstanding equity and does not exert significant influence.

IAS 39 (revised), "Financial Instruments: Recognition and Measurement" ("IAS 39"), with effect as of January 1, 2005, requires that financial investments be classified depending on the intent for the investment. IAS 39 (revised) specifies four categories: financial assets held at "fair value through profit or loss", "held-to-maturity investments", "loans and receivables" and "available-for-sale". Investments that do not fulfill the specific requirements of IAS 39 for financial assets at "fair value through profit or loss", "held-to-maturity investments" or "loans and receivables" categories are included in the residual "available-for-sale" category. All of Tenaris's Other investments are classified as financial assets "at fair value through profit or loss". As explained in Section IV, the Company 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. Subsequent to their acquisition, the change in fair value of

financial investments designated as held at fair value through profit or loss is charged to Financial income (expenses), net in the income statement.

Income from financial investments is recognized in Financial income (expenses), net in the income statement. Interest receivable on investments in debt securities is calculated using the effective interest method. Dividends from investments in equity instruments are recognized in the income statement when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial investment is not active or the securities are not listed, the Company 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 as a whole. The cost of finished goods and goods in process is comprised of raw materials, direct labor, other direct costs and related production overhead costs. Net realizable value is estimated collectively for inventories as the sales price in the ordinary course of business, less any costs of completion and selling expenses. Goods in transit at year end are valued at supplier invoice cost.

For purposes of determining net realizable value, the Company 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 original invoice amount. The Company 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.

### 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 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's 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 (V).

## 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. Any difference between net proceeds and redemption value is recognized as interest expense within Financial income (expenses), net in the income statement over the expected tenor of the borrowings.

## 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 "Holding Billionaire Company".

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 is subject to interpretation and establishes provisions when appropriate.

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 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 substantially 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's Italian and Mexican subsidiaries.

### b. Defined benefit pension obligations

Certain officers of the Company 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. Actuarial gains and losses are recognized over the average remaining service lives of employees.

Benefits provided under the Company's main plan are provided in US 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 the Company's other assets. As a result, this plan is considered to be "unfunded" under IFRS definitions.

Certain other officers and former employees of one specific Tenaris subsidiary are covered by a separate plan defined as "funded" under IFRS definitions.

#### 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, the Company 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

Provisions are accrued to reflect estimates of expenses incurred based on best available information. Estimates are based on information available as of the date of preparation of the financial statements. 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.

#### Contingencies

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. The Company's 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 the Company's 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.

# III. Financial risk management

### R. Revenue recognition

The Company's 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 and the arrangement does not include right of return or other similar provisions or other significant post-delivery obligations. 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 customer's 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's 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.

Shipping and handling costs related to customer sales are recorded in Selling, general and administrative expenses in the income statement.

### 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", below.

The multinational nature of Tenaris's 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 Company's 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 the Company's 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 US dollar, the results of hedging activities as reported under IFRS may not reflect management's assessment of its foreign exchange risk hedging program.

#### II. Interest rate risk management

The Company's 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. Dalmine and Tamsa 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

The Company's single largest customer is Petroleos Mexicanos, or Pemex. Sales to Pemex, as a percentage of our total sales, amounted to approximately 8% in 2005.

The Company's credit policies related to sales of products and services are designed to identify customers with acceptable credit history, and to allow the Company 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 potential credit losses.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. We have 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. The Company also has committed credit facilities that adequately backup its ability to close out market positions if needed.

## 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 rates. As a result, the fair value of the Company's 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 cost and subsequently remeasured at fair value. The Company recognizes the full amount related to the change in fair value of derivative financial instruments in Financial income (expenses), net in the current year.

Tenaris does not hold or issue derivative financial instruments for speculative trading purposes.

# IV. Impact of new accounting pronouncements

## Interpretations and amendments to published standards effective in 2005

### IASB project to improve International Financial Reporting Standards

In December 2003, as a part of the project to improve International Financial Reporting Standards, the IASB released revisions to certain standards including: IAS 1, "Presentation of Financial Statements"; IAS 16, "Property, Plant and Equipment"; IAS 39 (Amendment), "Transition and initial recognition of financial assets and financial liabilities"; and, IFRS 3, "Business Combinations". The revised standards apply to annual periods beginning on or after January 1, 2005. Adoption of new or revised standards has been made in accordance with the respective transition provisions.

The main impacts to the Company's consolidated financial statements are:

### a. Presentation of minority interest

IAS 1 (revised) requires disclosure on the face of the income statement of an entity's income or loss for the year and the allocation of that amount between "income or loss attributable to minority interest" and "income or loss attributable to equity holders of the Company". Earnings per share continue to be calculated on the basis of net income attributable solely to the equity holders of the entity. Also, for periods beginning on or after January 1, 2005, minority interest is included within equity in the consolidated balance sheet and is no longer shown as a separate category in the Liabilities section of the balance sheet. This change resulted in an increase of USD 165.3 million in the Company's reported equity at January 1, 2005.

### b. Reestimation of plant and equipment useful lives

International Accounting Standard No. 16, "Property, Plant and Equipment", requires for periods beginning on or after January 1, 2005, that the residual value and the useful life of fixed assets 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. The impact of the reestimation of useful lives for the Company's plant and equipment for the year ended December 31, 2005 was not material.

### c. IAS 39 (revised), "Financial Instruments": recognition and measurement

In accordance with the transition provisions of IAS 39 (revised), the Company designated certain investments in financial instruments previously recognized as "available for sale" as "financial assets carried at fair value through profit or loss". Accordingly, the Company changed the classification of these financial investments using the new designation in its financial statements. Financial investments are included in current assets unless management intends to dispose the investment more than 12 months from the balance sheet date.

### d. IFRS 3, "Business Combinations": goodwill and negative goodwill

During 2004 International Financial Reporting Standard (IFRS) 3, "Business Combinations" was issued, which was applied by the Company 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, the Company 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 years ended December 31, 2004 and 2003 amounted to USD 9.4 million and USD 8.9 million respectively.

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 USD 110.8 million in the beginning balance of the Company’s equity at January 1, 2005. Amortization of negative goodwill in income amounted to USD 9.0 million and USD 8.9 million in the years ended December 31, 2004 and 2003, respectively.

Management assessed the relevance of other new standards, amendments or interpretations and concluded that they are not relevant to the Company.

### Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company’s accounting periods beginning on or after January 1, 2006, or later periods but which the Company has not early adopted as follows:

#### 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 of recognizing 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 expenses. 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 the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures in the financial statements. Tenaris will apply this amendment from annual periods beginning January 1, 2006.

#### 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 finalizes proposals that were contained in Draft Technical Correction 1 Proposed Amendments to IAS 21, “Net Investment in a Foreign Operation” published in September 2005 and is applicable for annual periods beginning on or after January 1, 2006. The Company’s management has not yet assessed the impact of this standard on its financial statements.

#### 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. The Company will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning on January 1, 2007.

Management assessed the relevance of other new standards, amendments or interpretations not yet effective and concluded that they are not relevant to the Company.

# V. Other notes to the consolidated financial statements

In the notes all amounts are shown in USD thousands, unless otherwise stated

## 1. Segment information

### Primary reporting format - business segments

| | Seamless | Welded and other metallic products | Energy | Others | Unallocated | TOTAL |
|---|---|---|---|---|---|---|
| YEAR ENDED DECEMBER 31, 2005 | | | | | | |
| Net sales | 5,123,975 | 845,089 | 526,406 | 240,727 | – | **6,736,197** |
| Cost of sales | (2,720,858) | (556,142) | (513,401) | (152,357) | – | **(3,942,758)** |
| **Gross profit** | **2,403,117** | **288,947** | **13,005** | **88,370** | **–** | **2,793,439** |
| Segment assets | 4,747,808 | 525,199 | 147,019 | 1,032,206 | 253,796 | **6,706,028** |
| Segment liabilities | 2,410,540 | 217,183 | 124,290 | 178,142 | – | **2,930,155** |
| Capital expenditures | 252,974 | 25,101 | 1,379 | 5,020 | – | **284,474** |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 67,980 | – | – | – | – | **67,980** |
| Depreciation and amortization | 182,617 | 15,545 | 2,514 | 13,551 | – | **214,227** |
| YEAR ENDED DECEMBER 31, 2004 | | | | | | |
| Net sales | 3,273,267 | 348,137 | 417,870 | 96,789 | – | **4,136,063** |
| Cost of sales | (2,075,164) | (249,471) | (398,462) | (53,839) | – | **(2,776,936)** |
| **Gross profit** | **1,198,103** | **98,666** | **19,408** | **42,950** | **–** | **1,359,127** |
| Segment assets | 4,322,982 | 510,669 | 121,846 | 610,162 | 96,629 | **5,662,288** |
| Segment liabilities | 2,430,935 | 313,600 | 122,046 | 134,512 | – | **3,001,093** |
| Capital expenditures | 149,326 | 23,276 | 1,438 | 9,272 | – | **183,312** |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 73,846 | – | – | 117,251 | – | **191,097** |
| Depreciation and amortization | 185,118 | 12,665 | 3,554 | 6,782 | – | **208,119** |
| YEAR ENDED DECEMBER 31, 2003 | | | | | | |
| Net sales | 2,388,177 | 350,745 | 333,207 | 107,523 | – | **3,179,652** |
| Cost of sales | (1,531,995) | (274,643) | (316,566) | (84,623) | – | **(2,207,827)** |
| **Gross profit** | **856,182** | **76,102** | **16,641** | **22,900** | **–** | **971,825** |
| Segment assets | 3,534,575 | 408,498 | 105,629 | 217,846 | 43,000 | **4,309,548** |
| Segment liabilities | 1,959,274 | 252,993 | 91,982 | 44,035 | – | **2,348,284** |
| Capital expenditures | 129,405 | 24,245 | 5,380 | 3,594 | – | **162,624** |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 28,535 | – | – | 2,229 | – | **30,764** |
| Depreciation and amortization | 180,855 | 10,896 | 3,706 | 4,342 | – | **199,799** |

Tenaris's main business segment is seamless pipes.

The main transactions between segments, which were eliminated in the consolidation, relate to sales of Energy to Seamless units for USD 107,393 in 2005, USD 86,721 in 2004 and USD 62,755 in 2003. Other transactions include sales of scrap and pipe protectors from the Others segment to Seamless units for USD 41,163, USD 36,765 and USD 37,647 in 2005, 2004 and 2003, respectively.

## Secondary reporting format - geographical segments

| | South America | Europe | North America | Middle East and Africa | Far East and Oceania | Unallocated | TOTAL |
|---|---|---|---|---|---|---|---|
| **YEAR ENDED DECEMBER 31, 2005** | | | | | | | |
| Net sales | 1,823,735 | 1,570,207 | 1,708,126 | 959,020 | 675,109 | – | **6,736,197** |
| Total assets | 2,092,857 | 1,502,634 | 2,213,075 | 289,363 | 354,303 | 253,796 | **6,706,028** |
| Trade receivables | 358,859 | 265,378 | 310,153 | 255,379 | 134,402 | – | **1,324,171** |
| Property, plant and equipment, net | 740,391 | 648,892 | 787,937 | 3,583 | 49,235 | – | **2,230,038** |
| Capital expenditures | 109,180 | 104,665 | 64,274 | 1,498 | 4,857 | – | **284,474** |
| Acquisition of property, plant and equipment and intangible assets due to business combination | – | 67,980 | – | – | – | – | **67,980** |
| Depreciation and amortization | 87,430 | 71,122 | 49,038 | 404 | 6,233 | – | **214,227** |
| **YEAR ENDED DECEMBER 31, 2004** | | | | | | | |
| Net sales | 824,800 | 1,236,795 | 1,140,326 | 524,874 | 409,268 | – | **4,136,063** |
| Total assets | 1,773,958 | 1,808,557 | 1,596,464 | 109,266 | 277,414 | 96,629 | **5,662,288** |
| Trade receivables | 143,731 | 346,628 | 295,896 | 81,369 | 69,307 | – | **936,931** |
| Property, plant and equipment, net | 728,468 | 635,939 | 737,507 | 4,645 | 58,042 | – | **2,164,601** |
| Capital expenditures | 83,003 | 29,694 | 64,845 | 2,257 | 3,513 | – | **183,312** |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 121,145 | 69,952 | – | – | – | – | **191,097** |
| Depreciation and amortization | 89,934 | 68,432 | 41,986 | 35 | 7,732 | – | **208,119** |
| **YEAR ENDED DECEMBER 31, 2003** | | | | | | | |
| Net sales | 752,175 | 958,772 | 754,262 | 392,707 | 321,736 | – | **3,179,652** |
| Total assets | 1,464,835 | 1,193,960 | 1,310,471 | 90,699 | 206,583 | 43,000 | **4,309,548** |
| Trade receivables | 123,969 | 286,651 | 138,899 | 69,216 | 34,047 | – | **652,782** |
| Property, plant and equipment, net | 624,542 | 557,637 | 716,952 | 2,376 | 58,807 | – | **1,960,314** |
| Capital expenditures | 63,636 | 47,965 | 42,988 | 358 | 7,677 | – | **162,624** |
| Acquisition of property, plant and equipment and intangible assets due to business combination | 25,583 | 2,978 | 2,203 | – | – | – | **30,764** |
| Depreciation and amortization | 103,548 | 58,196 | 31,908 | 16 | 6,131 | – | **199,799** |

The South American segment comprises principally Argentina, Venezuela and Brazil. The European segment comprises principally Italy, France, United Kingdom, Germany, Romania and Norway. The North American segment comprises principally Mexico, USA and Canada. The Middle East and Africa segment comprises principally Egypt, United Arab Emirates, Saudi Arabia and Nigeria. The Far East and Oceania segment comprises principally China, Japan, Indonesia and South Korea.

## 2. Cost of sales

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| INVENTORIES AT THE BEGINNING OF THE YEAR | **1,269,470** | **831,879** | **680,113** |
| PLUS: CHARGES OF THE YEAR | | | |
| Raw materials, energy, consumables and other movements | 2,960,080 | 2,269,351 | 1,515,990 |
| Services and fees | 324,799 | 259,025 | 272,313 |
| Labor cost | 420,714 | 369,681 | 286,748 |
| Depreciation of property, plant and equipment | 182,696 | 174,880 | 171,896 |
| Amortization of intangible assets | 5,025 | 12,748 | 6,763 |
| Maintenance expenses | 99,171 | 82,323 | 54,335 |
| Provisions for contingencies | 200 | 994 | 3,802 |
| Allowance for obsolescence | 20,303 | 23,167 | 6,011 |
| Taxes | 3,170 | 3,088 | 4,273 |
| Others | 33,243 | 19,270 | 37,462 |
| | **4,049,401** | **3,214,527** | **2,359,593** |
| LESS: INVENTORIES AT THE END OF THE YEAR | (1,376,113) | (1,269,470) | (831,879) |
| | **3,942,758** | **2,776,936** | **2,207,827** |

## 3. Selling, general and administrative expenses

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Services and fees | 122,953 | 121,269 | 129,237 |
| Labor cost | 214,216 | 157,114 | 134,769 |
| Depreciation of property, plant and equipment | 10,319 | 10,218 | 8,477 |
| Amortization of intangible assets | 16,187 | 10,273 | 12,663 |
| Commissions, freights and other selling expenses | 298,101 | 250,085 | 189,353 |
| Provisions for contingencies | 14,855 | 12,142 | 2,005 |
| Allowances for doubtful accounts | 7,069 | 7,187 | 5,704 |
| Taxes | 93,782 | 59,256 | 45,337 |
| Others | 65,092 | 44,905 | 39,290 |
| | **842,574** | **672,449** | **566,835** |

## 4. Labor costs (included in Cost of sales and Selling, general and administrative expenses)

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Wages, salaries and social security costs | 622,523 | 509,572 | 410,458 |
| Employees' severance indemnity – Note 22 (I) (a) | 10,617 | 12,907 | 9,988 |
| Pension benefits – defined benefit plans – Note 22 (I) (b) | 1,790 | 4,316 | 1,071 |
| | **634,930** | **526,795** | **421,517** |

At the year-end, the number of employees was 17,693 in 2005, 16,447 in 2004 and 14,391 in 2003.

## 5. Other operating items

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| (I) OTHER OPERATING INCOME | | | |
| Reimbursement from insurance companies and other third parties | 1,966 | 3,165 | 1,544 |
| Net income from other sales | 5,767 | 16,063 | 4,075 |
| Net income from disposition of investments in associated companies | – | – | 1,018 |
| Net rents | 2,501 | 1,362 | 2,222 |
| Fintecna arbitration award, net of legal expenses, related to BHP proceedings – Note 26 (I) | 1,752 | 123,000 | – |
| Power plant – reimbursement from supplier – Note 26 (IV) (d) | – | 9,001 | – |
| | **11,986** | **152,591** | **8,859** |
| (II) OTHER OPERATING EXPENSES | | | |
| Provision for BHP proceedings | – | – | 114,182 |
| Provisions for legal claims and contingencies | 8,694 | – | – |
| Loss on disposal of fixed assets and material supplies | 2,146 | – | – |
| Allowance for doubtful receivables | 1,443 | 2,104 | 1,728 |
| Power plant – impairment and associated charges – Note 26 (IV) (d) | – | 18,447 | – |
| Miscellaneous | 2,122 | 5,200 | 9,749 |
| | **14,405** | **25,751** | **125,659** |

## 6. Financial income (expenses), net

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Interest expenses | (53,504) | (46,930) | (33,134) |
| Interest income | 24,268 | 14,247 | 16,426 |
| Net foreign exchange transaction (losses) / gains and changes in fair value of derivative instruments | (86,618) | 33,127 | (16,165) |
| Miscellaneous | 6,116 | 5,358 | 3,453 |
| | **(109,738)** | **5,802** | **(29,420)** |

## 7. Equity in earnings of associated companies

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Equity in earnings of associated companies – Note 12 | 117,003 | 122,911 | 27,585 |
| Change in the fair value of convertible debt option in Amazonia – Note 28 (d) | – | 83,126 | – |
| Other | 374 | – | – |
| | **117,377** | **206,037** | **27,585** |

## 8. Income tax

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Current tax | 637,623 | 277,219 | 148,240 |
| Deferred tax – Note 21 | (61,837) | (44,731) | (63,862) |
| | **575,786** | **232,488** | **84,378** |
| Effect of currency translation on tax base – Note 21 | (7,033) | (12,112) | (20,460) |
| | **568,753** | **220,376** | **63,918** |

The tax on Tenaris's income before tax differs from the theoretical amount that would arise using the tax rate in each country as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| INCOME BEFORE INCOME TAX | **1,956,085** | **1,025,357** | **286,355** |
| Tax calculated at the tax rate in each country | 592,153 | 268,488 | 99,060 |
| Non-taxable income / Non-deductible expenses | (32,408) | (10,019) | (27,907) |
| Changes in the tax rates in Mexico | – | (25,886) | – |
| Effect of currency translation on tax base (a) | (7,033) | (12,112) | (20,460) |
| Effect of taxable exchange differences | 17,087 | 10,742 | 13,367 |
| Utilization of previously unrecognized tax losses | (1,046) | (10,837) | (142) |
| **Tax charge** | **568,753** | **220,376** | **63,918** |

(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 US 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 issued during the year.

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net income attributable to equity holders | 1,277,547 | 784,703 | 210,308 |
| Weighted average number of ordinary shares in issue (thousands) | 1,180,537 | 1,180,507 | 1,167,230 |
| Basic and diluted earnings per share | 1.08 | 0.66 | 0.18 |
| Basic and diluted earnings per ADS | 10.82 | 6.65 | 1.80 |
| Dividends paid | (349,439) | (135,053) | (115,002) |
| Dividends per share | 0.296 | 0.11 | 0.10 |
| Dividends per ADS | 2.960 | 1.14 | 0.99 |

## 10. Property, plant and equipment, net

| YEAR ENDED DECEMBER 31, 2005 | Land, building and improvements | Plant and production equipment | Vehicles, furniture and fixtures | Work in progress | Spare parts and equipment | TOTAL |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| 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 | 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 |
| DEPRECIATION | | | | | | |
| 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) | – | – | – |
| **Accumulated at the end of the year** | **136,231** | **3,700,676** | **100,823** | – | **6,871** | 3,944,601 |
| **At December 31, 2005** | **271,960** | **1,741,505** | **25,492** | **173,715** | **17,366** | 2,230,038 |

| YEAR ENDED DECEMBER 31, 2004 | Land, building and improvements | Plant and production equipment | Vehicles, furniture and fixtures | Work in progress | Spare parts and equipment | TOTAL |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| Values at the beginning of the year | 303,929 | 5,031,525 | 112,371 | 86,193 | 12,799 | **5,546,817** |
| Translation differences | 6,938 | 87,970 | 2,520 | 2,107 | 643 | **100,178** |
| Additions | 11,547 | 10,744 | 2,509 | 133,193 | 5,165 | **163,158** |
| Disposals / Consumptions | (3,928) | (16,587) | (4,521) | (1,258) | (828) | **(27,122)** |
| Transfers / Reclassifications | 20,039 | 111,674 | 1,824 | (135,293) | 1,433 | **(323)** |
| Increase due to business combinations | 14,891 | 172,665 | 3,490 | – | 51 | **191,097** |
| **Values at the end of the year** | **353,416** | **5,397,991** | **118,193** | **84,942** | **19,263** | 5,973,805 |
| DEPRECIATION | | | | | | |
| Accumulated at the beginning of the year | 112,693 | 3,378,536 | 89,222 | – | 6,052 | **3,586,503** |
| Translation differences | 1,836 | 37,514 | 1,773 | – | 135 | **41,258** |
| Depreciation charge | 14,246 | 162,726 | 7,497 | – | 629 | **185,098** |
| Disposals / Consumptions | (603) | (11,083) | (3,567) | – | (17) | **(15,270)** |
| Transfers / Reclassifications | (24) | 365 | (348) | – | (83) | **(90)** |
| **Accumulated at the end of the year** | **128,148** | **3,568,058** | **94,577** | – | **6,716** | 3,797,499 |
| Impairment – Note 26 (IV) (e) | – | (11,705) | – | – | – | **(11,705)** |
| **At December 31, 2004** | **225,268** | **1,818,228** | **23,616** | **84,942** | **12,547** | 2,164,601 |

Property, plant and equipment includes capitalized interest of USD 19,686. The net amount at December 31, 2005 is USD 2,754.

## 11. Intangible assets, net

| YEAR ENDED DECEMBER 31, 2005 | Information systems projects | Licenses and patents | Goodwill [a] | Negative goodwill [a] | TOTAL |
|---|---|---|---|---|---|
| COST | | | | | |
| 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 | – | – | 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 | – | – | – | – | – |
| Disposals | (204) | (344) | – | – | **(548)** |
| **Accumulated at the end of the year** | **85,164** | **8,872** | **–** | **–** | **94,036** |
| **At December 31, 2005** | **44,253** | **1,413** | **113,433** | **–** | **159,099** |

As disclosed in AP G (1), previously accumulated negative goodwill at December 31, 2004 was derecognized with a corresponding adjustment to Retained earnings. As a consequence, the opening balance of the Company's shareholders' equity at January 1, 2005 increased in USD 110.8 million.

| YEAR ENDED DECEMBER 31, 2004 | Information systems projects | Licenses and patents | Goodwill (a) | Negative goodwill (a) | TOTAL |
|---|---|---|---|---|---|
| COST | | | | | |
| Values at the beginning of the year | 88,802 | 10,490 | 142,904 | (130,692) | **111,504** |
| Translation differences | 3,850 | 579 | 164 | (3,194) | **1,399** |
| Additions | 20,022 | 132 | – | – | **20,154** |
| Transfers / Reclassifications | 2,657 | (173) | – | – | **2,484** |
| Disposals | (747) | – | – | – | **(747)** |
| **Values at the end of the year** | **114,584** | **11,028** | **143,068** | **(133,886)** | **134,794** |
| AMORTIZATION | | | | | |
| Accumulated at the beginning of the year | 42,101 | 8,561 | 20,882 | (14,077) | **57,467** |
| Translation differences | 2,695 | 522 | 172 | – | **3,389** |
| Amortization charge | 21,600 | 1,105 | 9,350 | (9,034) | **23,021** |
| Transfers / Reclassifications | 3,138 | (887) | – | – | **2,251** |
| Disposals | (545) | – | – | – | **(545)** |
| **Accumulated at the end of the year** | **68,989** | **9,301** | **30,404** | **(23,111)** | **85,583** |
| **At December 31, 2004** | **45,595** | **1,727** | **112,664** | **(110,775)** | **49,211** |

(a) Corresponds to the Seamless segment.

### Impairment tests for goodwill

Goodwill is allocated to the Company's cash-generating units ("CGU") identified according to country of operation and business segment.

A geographical segment-level summary of the goodwill allocation is presented below.

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| South America | 93,239 | 93,239 |
| Europe | 769 | – |
| North America | 19,425 | 19,425 |
| **At the end of the year** | **113,433** | **112,664** |

The recoverable amount of goodwill allocated to a CGU is determined based on its value-in-use. These calculations use cash flow projections based on financial assumptions approved by management covering at least a minimum period of five years. Cash flows beyond the minimum period are extrapolated using estimated growth rates. No impairment charge was required as a result of the impairment tests performed.

## 12. Investments in associated companies

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| At the beginning of the year | 99,451 | 45,814 |
| Translation differences | (22,869) | (21,094) |
| Equity in earnings of associated companies | 117,003 | 122,911 |
| Dividends and distributions received | (59,127) | (48,598) |
| Acquisitions | – | 418 |
| Capitalization of convertible loan in Amazonia – Note 28 (d) | 120,058 | – |
| Increase in equity reserves in Ternium – Note 28 (d) | 2,718 | – |
| **At the end of the year** | **257,234** | **99,451** |

The principal associated companies are:

| COMPANY | COUNTRY OF INCORPORATION | PERCENTAGE OF OWNERSHIP AND VOTING RIGHTS AT DECEMBER 31 | | VALUE AT DECEMBER 31 | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| Ternium S.A. | Luxembourg | 15.00% | – | 253,796 | – |
| Consorcio Siderurgia Amazonia Ltd. | Cayman Islands | – | 14.49% | – | 76,007 |
| Ylopa Serviços de Consultadoria Lda. | Madeira | – | 24.40% | – | 20,622 |
| Condusid C.A. | Venezuela | 20.00% | 20.00% | 2,860 | 2,375 |
| Others | – | – | – | 578 | 447 |
| | | | | **257,234** | **99,451** |

Summarized financial information of each significant associated company, including the aggregated amounts of assets, liabilities, revenues and profit or loss is as follows:

| COMPANY | Assets | | Liabilities | | Revenues | | Profit / Loss | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Ternium S.A. | 8,659,981 | – | 5,084,062 | – | 4,447,680 | – | 704,406 | – |
| Consorcio Siderurgia Amazonia Ltd. (a) | – | 878,829 | – | 354,279 | – | 526,446 | – | 507,965 |
| Ylopa Serviços de Consultadoria Lda. (b) | – | 800,289 | – | 715,772 | – | 205,080 | – | 203,763 |
| Condusid C.A. | 33,109 | 31,445 | 18,586 | 19,571 | 56,911 | 29,619 | 3,877 | (1,794) |

(a) An impairment provision recorded in 2003 of USD 51.9 million was reversed in 2004 due to improved economic conditions and an improvement in the market for Sidor's products, based on projections of future cash flows estimated by Amazonia's management.

(b) At December 31, 2004 the retained earnings of Ylopa Serviços de Consultadoria Lda. ("Ylopa") totalled USD 77.1 million.

## 13. Other investments – non-current

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Deposits with insurance companies | 12,004 | 11,315 |
| Investments in other companies | 12,869 | 12,702 |
| Others | 774 | 378 |
| | **25,647** | **24,395** |

## 14. Receivables – non-current

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Government entities | 5,918 | 4,064 |
| Employee advances and loans | 5,053 | 5,086 |
| Tax credits | 6,121 | 8,455 |
| Trade receivables | 1,108 | 1,112 |
| Receivables from related parties | 3,321 | 4,750 |
| Convertible loans – Note 28 (d) | 40,358 | 121,955 |
| Receivables on off-take contract | 9,677 | 7,338 |
| Miscellaneous | 9,746 | 11,777 |
| | **81,302** | **164,537** |
| Allowances for doubtful accounts – Note 23 (I) | (15,450) | (13,172) |
| | **65,852** | **151,365** |

## 15. Inventories

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Finished goods | 479,756 | 526,623 |
| Goods in process | 404,518 | 256,203 |
| Raw materials | 183,900 | 196,141 |
| Supplies | 241,974 | 214,604 |
| Goods in transit | 151,715 | 143,021 |
| | **1,461,863** | **1,336,592** |
| Allowance for obsolescence – Note 24 (I) | (85,750) | (67,122) |
| | **1,376,113** | **1,269,470** |

## 16. Receivables and prepayments

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Reimbursements and other services receivable | 25,044 | 33,306 |
| Government entities | 19,044 | 15,999 |
| Employee advances and loans | 7,922 | 8,281 |
| Advances to suppliers | 49,219 | 35,397 |
| Other advances | 1,624 | 2,218 |
| Government tax refunds on exports | 16,410 | 19,683 |
| Fintecna arbitration award – Note 26 (I) | – | 126,126 |
| Receivables from related parties | 13,695 | 19,004 |
| Miscellaneous | 23,411 | 27,782 |
| | **156,369** | **287,796** |
| Allowance for other doubtful accounts – Note 24 (I) | (13,087) | (8,346) |
| | **143,282** | **279,450** |

## 17. Current tax assets

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| V.A.T. credits | 90,000 | 82,580 |
| Prepaid taxes | 12,455 | 12,416 |
| | **102,455** | **94,996** |

## 18. Trade receivables

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Current accounts | 1,256,882 | 848,304 |
| Notes receivables | 60,972 | 83,882 |
| Receivables from related parties | 31,279 | 28,909 |
| | **1,349,133** | **961,095** |
| Allowance for doubtful accounts – Note 24 (I) | (24,962) | (24,164) |
| | **1,324,171** | **936,931** |

## 19. Cash and cash equivalents, and Other investments

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| (I) OTHER INVESTMENTS | | |
| Financial assets | 119,907 | 119,666 |
| (II) CASH AND CASH EQUIVALENTS | | |
| Cash and short-term highly liquid investments | 707,356 | 311,573 |
| Time deposits with related parties | – | 6 |
| | **707,356** | **311,579** |

## 20. Borrowings

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| NON-CURRENT | | |
| Bank borrowings | 634,280 | 372,275 |
| Debentures and other loans | 38,407 | 40,845 |
| Finance lease liabilities | 5,425 | 7,631 |
| | **678,112** | **420,751** |
| CURRENT | | |
| Bank borrowings | 238,510 | 530,949 |
| Debentures and other loans | 67,451 | 300,856 |
| Bank overdrafts | 24,717 | 4,255 |
| Finance lease liabilities | 1,502 | 2,531 |
| | **332,180** | **838,591** |
| **Total borrowings** | **1,010,292** | **1,259,342** |

The maturity of borrowings is as follows:

| AT DECEMBER 31, 2005 | 1 year or less | 1 - 2 years | 2 - 3 years | 3 - 4 years | 4 - 5 years | Over 5 years | TOTAL |
|---|---|---|---|---|---|---|---|
| Financial leases | 1,502 | 1,184 | 970 | 739 | 678 | 1,854 | **6,927** |
| Other borrowings | 330,678 | 155,337 | 207,708 | 159,343 | 87,843 | 62,456 | **1,003,365** |
| **Total borrowings** | **332,180** | **156,521** | **208,678** | **160,082** | **88,521** | **64,310** | **1,010,292** |

Significant borrowings include:

- USD 300.0 million syndicated loan issued by Tamsa in March, 2005, maturing in March 2010.
- USD 125.0 million syndicated loan issued by Siderca in April, 2005, maturing in April, 2008.
- USD 144.0 million syndicated loan granted to Dalmine in June, 2005, of which USD 72.0 million had been disbursed as of December 31, 2005.

The main financial covenants related to these loan agreements are commitments not to incur in additional indebtedness above agreed limits or pledges of certain assets, and compliance with certain debt service ratios as calculated on each subsidiary's financial statements.

Additionally, Tenaris's total borrowings include USD 204.8 million secured by certain properties of Dalmine and Confab.

As of December 31, 2005, Tenaris was in compliance with all of its financial covenants. Management believes that current debt covenants allow the Company a high degree of operational and financial flexibility and do not impair its ability to obtain additional financing at competitive costs.

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, 2005 and 2004. These rates reflect the upward trend in the reference rates.

| | 2005 | 2004 |
|---|---|---|
| Bank borrowings | 5.14% | 3.89% |
| Debentures and other loans | 4.51% | 3.48% |
| Finance lease liabilities | 3.14% | 2.99% |

Breakdown of long-term borrowings by currency and rate is as follows:

### Non-current bank borrowings

| CURRENCY | INTEREST RATES | YEAR ENDED DECEMBER 31 | |
|---|---|---|---|
| | | 2005 | 2004 |
| USD | Variable | 545,305 | 215,730 |
| EUR | Variable | 93,621 | 160,026 |
| EUR | Fixed | 30,709 | 9,794 |
| JPY | Variable | 23,310 | 48,170 |
| JPY | Fixed | 17,084 | 27,065 |
| BRS | Variable | 23,306 | 24,099 |
| MXN | Variable | – | 24,406 |
| | | **733,335** | **509,290** |
| Less: Current portion of medium and long-term loans | | (99,055) | (137,015) |
| **Total non-current bank borrowings** | | **634,280** | **372,275** |

### Non-current debentures and other loans

| CURRENCY | INTEREST RATES | YEAR ENDED DECEMBER 31 | |
|---|---|---|---|
| | | 2005 | 2004 |
| EUR | Variable | – | 70,811 |
| USD | Variable | 49,332 | 45,382 |
| USD | Fixed | – | 5,449 |
| | | **49,332** | **121,642** |
| Less: Current portion of medium and long-term loans | | (10,925) | (80,797) |
| **Total non-current debentures and other loans** | | **38,407** | **40,845** |

The debentures issued in January 1998 were repaid at maturity, in January, 2005.

Non-current finance lease liabilities

| CURRENCY | INTEREST RATES | YEAR ENDED DECEMBER 31 | |
|---|---|---|---|
| | | 2005 | 2004 |
| EUR | Variable | 29 | 573 |
| EUR | Fixed | – | 78 |
| SGD | Fixed | – | 9 |
| JPY | Fixed | 6,898 | 9,502 |
| | | **6,927** | **10,162** |
| Less: Current portion of medium and long-term loans | | (1,502) | (2,531) |
| **Total non-current finance leases** | | **5,425** | **7,631** |

The carrying amounts of Tenaris's assets pledged as collateral of liabilities are as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Property, plant and equipment mortgages | **595,627** | **573,513** |

Breakdown of short-term borrowings by currency and rate is as follows:

Current bank borrowings

| CURRENCY | INTEREST RATES | YEAR ENDED DECEMBER 31 | |
|---|---|---|---|
| | | 2005 | 2004 |
| USD | Variable | 50,597 | 161,357 |
| USD | Fixed | 55,946 | 153,448 |
| EUR | Variable | 64,810 | 51,232 |
| EUR | Fixed | 1,882 | 3,111 |
| JPY | Variable | 10,741 | 11,985 |
| JPY | Fixed | 5,226 | 4,995 |
| BRS | Variable | 5,197 | 3,450 |
| ARS | Variable | – | 169 |
| ARS | Fixed | 44,111 | 134,004 |
| VEB | Variable | – | 5,189 |
| VEB | Fixed | – | 2,009 |
| **Total current bank borrowings** | | **238,510** | **530,949** |

## Bank overdrafts

| CURRENCY | YEAR ENDED DECEMBER 31 | |
|---|---|---|
| | 2005 | 2004 |
| USD | 16,406 | 326 |
| EUR | 3,298 | 567 |
| ARS | 3,193 | 3,050 |
| NGN | – | 195 |
| RON | – | 117 |
| VEB | 1,820 | – |
| **Total current bank borrowings** | **24,717** | **4,255** |

## Current debentures and other loans

| CURRENCY | INTEREST RATES | YEAR ENDED DECEMBER 31 | |
|---|---|---|---|
| | | 2005 | 2004 |
| EUR | Variable | 51,333 | 280,156 |
| USD | Variable | 16,118 | 9,177 |
| USD | Fixed | – | 11,523 |
| **Total current debentures and other loans** | | **67,451** | **300,856** |

## Current finance lease liabilities

| CURRENCY | INTEREST RATES | YEAR ENDED DECEMBER 31 | |
|---|---|---|---|
| | | 2005 | 2004 |
| EUR | Variable | – | 573 |
| EUR | Fixed | 29 | 78 |
| SGD | Fixed | – | 2 |
| JPY | Fixed | 1,473 | 1,878 |
| **Total current finance leases** | | **1,502** | **2,531** |

## 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 | 2005 | 2004 |
|---|---|---|
| At the beginning of the year | 210,802 | 287,521 |
| Translation differences | 8,605 | (926) |
| Increase due to business combinations | – | 392 |
| Income statement credit | (61,837) | (44,731) |
| Effect of currency translation on tax base | (7,033) | (12,112) |
| Deferred employees' statutory profit sharing charge | 7,984 | (19,342) |
| **At the end of the year** | **158,521** | **210,802** |

The evolution of deferred tax assets and liabilities during the year are as follows:

### Deferred tax liabilities

| | 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)** |
| **At December 31, 2005** | **227,370** | **45,600** | **80,425** | **353,395** |
| At the beginning of the year | 232,791 | 52,637 | 132,905 | **418,333** |
| Translation differences | 6,449 | 94 | 2,076 | **8,619** |
| Increase due to business combinations | – | – | 392 | **392** |
| Acquisition of minority interest in subsidiaries | 20 | 276 | (338) | **(42)** |
| Income statement charge / (credit) | (35,017) | 10,446 | (30,756) | **(55,327)** |
| **At December 31, 2004** | **204,243** | **63,453** | **104,279** | **371,975** |

(a) Includes the effect of currency translation on tax base explained in Note 8.

## Deferred tax assets

| | Provisions 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)** |
| **At December 31, 2005** | **(32,631)** | **(74,214)** | **(11,993)** | **(76,036)** | **(194,874)** |

| | Provisions and allowances | Inventories | Tax losses [(a)] | Other | TOTAL |
|---|---|---|---|---|---|
| At the beginning of the year | (75,925) | (28,307) | (8,287) | (18,293) | **(130,812)** |
| Translation differences | (7,365) | (316) | (351) | (1,513) | **(9,545)** |
| Acquisition of minority interest in subsidiaries | (49) | – | – | 91 | **42** |
| Income statement charge / (credit) | 20,710 | (12,669) | (7,069) | (21,830) | **(20,858)** |
| **At December 31, 2004** | **(62,629)** | **(41,292)** | **(15,707)** | **(41,545)** | **(161,173)** |

(a) The tax loss carry-forwards arising from the BHP settlement are included in provisions and allowances.

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 | 2005 | 2004 |
|---|---|---|
| Deferred tax assets | (194,874) | (161,173) |
| Deferred tax liabilities | 353,395 | 371,975 |
| | **158,521** | **210,802** |

The amounts shown in the balance sheet include the following:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Deferred tax assets to be recovered after more than 12 months | (49,662) | (31,869) |
| Deferred tax liabilities to be settled after more than 12 months | 225,486 | 246,072 |

## 22. Other liabilities

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| (I) OTHER LIABILITIES – NON-CURRENT | | |
| EMPLOYEE LIABILITIES | | |
| Employees' statutory profit sharing | 64,010 | 68,917 |
| Employees' severance indemnity (a) | 62,279 | 71,759 |
| Pension benefits (b) | 10,788 | 11,578 |
| | **137,077** | **152,254** |
| OTHER LIABILITIES | | |
| Taxes payable | 9,364 | 8,757 |
| Miscellaneous | 7,937 | 11,431 |
| | **17,301** | **20,188** |
| | **154,378** | **172,442** |

### a. Employees' severance indemnity

The amounts recognized in the balance sheet are as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| **Total included in non-current employee liabilities** | **62,279** | **71,759** |

The amounts recognized in the income statement are as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Current service cost | 7,846 | 9,999 | 7,291 |
| Interest cost | 2,771 | 2,908 | 2,697 |
| **Total included in Labor costs** | **10,617** | **12,907** | **9,988** |

The principal actuarial assumptions used were as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Discount rate | 5% | 4% | 5% |
| Rate of compensation increase | 4% | 3% | 4% |

## b. Pension benefits

The amounts recognized in the balance sheet are determined as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Present value of unfunded obligations | 15,707 | 16,478 |
| Unrecognized actuarial losses | (4,919) | (4,900) |
| **Liability in the balance sheet** | **10,788** | **11,578** |

The amounts recognized in the income statement are as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Current service cost | 544 | 571 | 381 |
| Interest cost | 917 | 875 | 637 |
| Net actuarial losses recognized in the year | 329 | 2,870 | 53 |
| **Total included in Labor costs** | 1,790 | **4,316** | **1,071** |

Movement in the liability recognized in the balance sheet:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| At the beginning of the year | 11,578 | 8,569 |
| Transfers and new participants of the plan | – | 1,244 |
| Total expense | 1,790 | 4,316 |
| Translation differences | (272) | 167 |
| Contributions paid | (2,308) | (2,718) |
| **At the end of the year** | **10,788** | **11,578** |

The principal actuarial assumptions used were as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Discount rate | 7% | 7% | 7% |
| Rate of compensation increase | 2% | 2% | 2% |

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| (II) OTHER LIABILITIES – CURRENT | | |
| Payroll and social security payable | 102,052 | 86,189 |
| Accounts payable – BHP settlement – Note 26 (I) | – | 80,517 |
| Liabilities with related parties | 2,688 | 1,432 |
| Miscellaneous | 34,135 | 26,807 |
| | **138,875** | **194,945** |

## 23. Non-current allowances and provisions

### (I) Deducted from assets

| | Allowance for doubtful accounts – Receivables |
|---|---|
| YEAR ENDED DECEMBER 31, 2005 | |
| Values at the beginning of the year | (13,172) |
| Translation differences | 185 |
| Reversals / Additional allowances (*) | (81) |
| Used (*) | (2,382) |
| **At December 31, 2005** | **(15,450)** |
| YEAR ENDED DECEMBER 31, 2004 | |
| Values at the beginning of the year | (21,258) |
| Translation differences | 154 |
| Reversals / Additional provisions (*) | 154 |
| Used (*) | 7,778 |
| **At December 31, 2004** | **(13,172)** |

(*) Includes effect of allowances on off-take credits, which are reflected in the Cost of sales.

### (II) Liabilities

| | Legal claims and contingencies |
|---|---|
| YEAR ENDED DECEMBER 31, 2005 | |
| Values at the beginning of the year | 31,776 |
| Translation differences | 406 |
| Increased due to business combinations | – |
| Reversals / Additional provisions | 16,015 |
| Used | (4,233) |
| **At December 31, 2005** | **43,964** |
| YEAR ENDED DECEMBER 31, 2004 | |
| Values at the beginning of the year | 23,333 |
| Translation differences | 800 |
| Increased due to business combinations | 2,355 |
| Reversals / Additional provisions | 7,438 |
| Used | (2,150) |
| **At December 31, 2004** | **31,776** |

## 24. Current allowances and provisions

### (I) Deducted from assets

| | Allowance for doubtful accounts – Trade receivables | Allowance for other doubtful accounts – Other receivables | Allowance for inventory obsolescence |
|---|---|---|---|
| YEAR ENDED DECEMBER 31, 2005 | | | |
| Values at the beginning of the year | (24,164) | (8,346) | (67,122) |
| Translation differences | 1,309 | (174) | 2,941 |
| Reversals / Additional allowances | (4,722) | (3,709) | (20,303) |
| Increase due to business combinations | (843) | – | (11,931) |
| Used | 3,458 | (858) | 10,665 |
| **At December 31, 2005** | **(24,962)** | **(13,087)** | **(85,750)** |
| YEAR ENDED DECEMBER 31, 2004 | | | |
| Values at the beginning of the year | (24,003) | (5,761) | (47,743) |
| Translation differences | (611) | (83) | (1,814) |
| Reversals / Additional allowances | (7,402) | (2,043) | (23,167) |
| Increase due to business combinations | (835) | (484) | (6,334) |
| Used | 8,687 | 25 | 11,936 |
| **At December 31, 2004** | **(24,164)** | **(8,346)** | **(67,122)** |

(II) Liabilities

| | Sales risks | Other claims and contingencies | TOTAL |
|---|---|---|---|
| YEAR ENDED DECEMBER 31, 2005 | | | |
| Values at the beginning of the year | 5,509 | 37,127 | **42,636** |
| Translation differences | (518) | (3,849) | **(4,367)** |
| Reversals / Additional provisions | (493) | 8,227 | **7,734** |
| Used | (1,009) | (8,049) | **(9,058)** |
| **At December 31, 2005** | **3,489** | **33,456** | **36,945** |
| YEAR ENDED DECEMBER 31, 2004 | | | |
| Values at the beginning of the year | 4,065 | 35,559 | **39,624** |
| Translation differences | 341 | 2,878 | **3,219** |
| Reversals / Additional provisions | 6,254 | (556) | **5,698** |
| Used | (5,151) | (1,673) | **(6,824)** |
| Increase due to business combinations | – | 919 | **919** |
| **At December 31, 2004** | **5,509** | **37,127** | **42,636** |

## 25. Derivative financial instruments

### Net fair values of derivative financial instruments

The net fair values of derivative financial instruments disclosed in Other liabilities and Other receivables at the balance sheet date, in accordance with IAS 39, were:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| CONTRACTS WITH POSITIVE FAIR VALUES | | |
| Interest rate swap contracts | 3,641 | 192 |
| Forward foreign exchange contracts | 441 | 12,163 |
| CONTRACTS WITH NEGATIVE FAIR VALUES | | |
| Interest rate swap contracts | (921) | (3,595) |
| Forward foreign exchange contracts | (7,818) | (3,749) |
| Commodities contracts | – | (283) |

Derivative financial instruments breakdown is as follows:

### Variable interest rate swaps

| FAIR VALUE DECEMBER 31 | | | | 2005 | 2004 |
|---|---|---|---|---|---|
| NOTIONAL AMOUNT (IN THOUSANDS) | | SWAP | TERM | | |
| EUR | 111,975 | Pay fixed / Receive variable | 2005 | – | (1,493) |
| EUR | 22,616 | Pay fixed / Receive variable | 2007 | (410) | (853) |
| MXN | 275,000 | Pay fixed / Receive variable | 2007 | – | (148) |
| EUR | 1,404 | Pay fixed / Receive variable | 2009 | (82) | (152) |
| EUR | 6,714 | Pay fixed / Receive variable | 2010 | (429) | (757) |
| USD | 100,000 | Pay fixed / Receive variable | 2009 | 2,228 | – |
| USD | 200,000 | Interest rate collar | 2010 | 1,413 | – |
| | | | | **2,720** | **(3,403)** |

### Exchange rate derivatives

| FAIR VALUE DECEMBER 31 | | 2005 | 2004 |
|---|---|---|---|
| CURRENCIES | CONTRACT | | |
| USD/EUR | Euro Forward sales | – | (107) |
| USD/EUR | Euro Forward purchases | (1,502) | 1,083 |
| JPY/USD | Japanese Yen Forward purchases | (3,579) | 5,388 |
| CAD/USD | Canadian Dollar Forward sales | – | (1,108) |
| BRL/USD | Brazilian Real Forward sales | 8 | (1,885) |
| ARS/USD | Argentine Peso Forward purchases | (2,186) | 2,154 |
| GBP/USD | Pound Sterling Forward purchases | – | 3,449 |
| USD/MXN | Mexican Peso Forward sales | – | (560) |
| KWD/USD | Kuwaiti Dinar Forward sales | (118) | – |
| | | **(7,377)** | **8,414** |

### Commodities price derivatives

| FAIR VALUE DECEMBER 31 | | 2005 | 2004 |
|---|---|---|---|
| CONTRACT | TERMS | | |
| Gas put options | 2004-2005 | – | (283) |
| | | – | **(283)** |

## 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 22 and 23) that would be material to Tenaris's consolidated financial position or results of operations.

### I. BHP litigation and arbitration proceeding against Fintecna

On December 30, 2003 Dalmine and a consortium led by BHP Billiton Petroleum Ltd. ("BHP") settled their 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 (USD 207.2 million), inclusive of expenses. This amount, was payable in three annual installments, net of advances previously made. The first two installments of GBP 30.3 million and GBP 30.4 million were paid in January and December 2004, respectively, and the final installment of GBP 30.4 million plus interest at Libor plus 1% (USD 60.6 million) was paid on March 29, 2005. No charges against income resulted from this payment, as Tenaris had previously recorded a provision related to this matter.

Techint Investments Netherlands B.V. ("Tenet") –the Tenaris subsidiary party to the contract pursuant to which Dalmine was privatized– 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 this final award, Fintecna paid Tenaris a total amount of EUR 93.8 million (USD 127.2 million) on March 15, 2005. As a result of these settlements, the arbitration proceedings have been definitively concluded and Tenaris has no further outstanding obligations under the BHP settlement agreement.

### II. Tax matters

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 ARP 64.4 million (approximately USD 21.2 million) at December 31, 2005 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.

Application of inflationary adjustment procedures

On its tax return for the year ended December 31, 2002, Siat S.A. ("Siat", a subsidiary of Tenaris domiciled in Argentina), applied the inflation adjustment procedure set forth in Title VI of the Argentine Income Tax Law to reflect the impact of inflation on its monetary positions. The application of such procedure, however, had been suspended in March 1992 following the introduction of the convertibility regime that pegged the Argentine peso to the United States dollar at a fixed exchange rate of one peso to one dollar and had not been reinstated after the termination of the convertibility regime.

Siat commenced legal proceedings objecting to the suspension of the inflationary adjustment procedure on constitutional grounds, arguing that the suspension resulted in artificial gains arising from the impact of inflation on monetary positions during 2002. In July 29, 2005 Siat paid USD 4.5 million corresponding to the amount of tax due excluding the inflationary correction adjustment, pending resolution of the legal proceeding. The injunction has been appealed by the Argentine Tax Authority before the Federal Court of Appeals.

Siderca S.A.I.C. had also initiated similar proceedings against Argentine fiscal authorities seeking relief through the application of the inflationary adjustment correction in the calculation of its income tax liability for the year ended December 31, 2002. However, on October 29, 2004 Siderca applied for benefits under the promotional regime established by Argentine Law No. 25.924 and committed to dismiss the legal proceedings described in the previous paragraphs in the event that Siderca were granted participation.

On February 11, 2005, Siderca was granted the right to participate in the promotional tax regime established by Argentine Law No. 25.924 under which it could potentially earn certain tax benefits. As a result, Siderca withdrew its claim against the Argentine fiscal authorities. On February 21, 2005, Siderca paid ARS 69.4 million (USD 23.8 million). No charges against income resulted from this payment, as Tenaris had previously recorded a provision related to this matter.

III. Other proceedings

Dalmine is currently subject to twelve civil proceedings for work-related injuries arising from the use of asbestos in its manufacturing processes during the period from 1960 to 1980. On June 1, 2005, the First Instance Court of Bergamo, Italy, found against three former Dalmine managers subject to a consolidated criminal proceeding for "objective responsibility" in the injuries of 21 employees of the company caused by the use of asbestos in manufacturing processes from 1960 to 1980. The managers have decided to appeal before the Court of Appeal of Brescia.

Of the 21 civil parties related to the above consolidated criminal proceeding, 20 have been settled. In addition to the civil and criminal cases, another 22 asbestos related out-of-court claims have been forwarded to Dalmine. Dalmine estimates that its potential liability in connection with the claims not yet settled or covered by insurance is approximately EUR 10.3 million (USD 12.4 million).

IV. Commitments

a. In connection with its equity interest in Complejo Siderúrgico de Guayana C.A. ("Comsigua"), Tenaris pledged its shares in Comsigua and provided a proportional guarantee of USD 11.7 million in support of project financing provided by the International Finance Corporation ("IFC") in the amount of USD 156 million. On March 15, 2005 Comsigua prepaid the remaining balance of approximately USD 42.5 million owed to the IFC related to the project financing loans. Tenaris has applied to the IFC for release from its proportional guarantee commitment of Comsigua's project loan. This release is pending.

b. In July 2004, Tenaris's 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 agreement established a start-up period until June 2005 for which the take-or-pay conditions were not be in force. The outstanding value of the contract at December 31, 2005 is approximately USD 60.1 million.

c. On August 20, 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.

d. Tenaris entered in 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 USD 9.0 million. Tenaris recognized a receivable with the manufacturer for the cost of the repairs. The Company impaired the value of these assets under Property, plant and equipment for USD 11.7 million. The reparation of the generating facility was completed by September 2005.

e. Under a lease agreement entered into in 2000 between Gade S.r.l. (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 (USD 10.0 million). As of the present, a date for the auction has not been announced.

f. In August 2001, Dalmine Energie S.p.A. ("Dalmine Energie") entered into a ten-year contract ending October 1, 2011 with Eni S.p.A. Gas & Power Division ("Eni") for the purchase of natural gas with certain take-or-pay conditions. The outstanding value of these commitments at December 31, 2005 amounts to approximately EUR 816.3 million (USD 963.0 million).

g. Under the Gas Release Program enacted by Eni, in August 2004, Dalmine Energie increased its supply of natural gas for the period from October 1, 2004 to September 30, 2008. The gas purchase and sale agreements entered into with Eni contain customary take-or-pay conditions. The additional gas supply mentioned above is valued at approximately EUR 266.3 million (USD 313.3 million), based on prices prevailing as of December 2005. Dalmine Energie has also obtained the necessary capacity on the interconnection infrastructure at the Italian border to transport the natural gas to Italy for the supply period.

h. Dalmine Energie has entered into arrangements and expects to obtain additional gas transportation capacity on the Trans Austria Gasleitung GmbH ("TAG") pipeline, which is presently under construction. This capacity will allow Dalmine Energie to import an incremental 1,176.5 million cubic meters of natural gas per year. The additional transportation capacity, which is subject to "ship or pay" provisions, will be available on a firm basis on the TAG pipeline beginning October 2008 and through September 2028.

The expected annual value of this "ship or pay" commitment is approximately EUR 5.0 million per year. Tenaris provided bank guarantees in the amount of

EUR 15.1 million in support of Dalmine Energie. The value of the bank guarantees correspond to the termination penalties that would be due TAG in the event of termination or non-utilization of the transportation capacity.

### V. Restrictions on the distribution of profits and payment of dividends

As of December 31, 2005, shareholders' equity as defined under Luxembourg law and regulations consisted of:

All amounts in USD thousands

| YEAR ENDED DECEMBER 31 | 2005 |
|---|---|
| Share capital | 1,180,537 |
| Legal reserve | 118,054 |
| Share premium | 609,733 |
| Retained earnings including net income for the year ended December 31, 2005 | 1,171,738 |
| **Total shareholders equity according to Luxembourg law** | **3,080,062** |

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, 2005, this reserve is fully allocated and additional allocations to the reserve are not required under Luxembourg law. Dividends may 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.

At December 31, 2005 the distributable reserve, including retained earnings and profit for the financial year, of Tenaris under Luxembourg law, totalled USD 1,171.7 million, as detailed below.

All amounts in USD thousands

| YEAR ENDED DECEMBER 31 | 2005 |
|---|---|
| Distributable reserve at December 31, 2004 under Luxembourg law | 536,541 |
| Dividends and distributions received | 449,270 |
| Other income and expenses for the year ended December 31, 2005 | 535,366 |
| Dividends paid | (349,439) |
| **Distributable reserve at December 31, 2005 under Luxembourg law** | **1,171,738** |

## 27. Ordinary shares and share premium

| NUMBER OF ORDINARY SHARES | 2005 | 2004 |
|---|---|---|
| At January 1 | 1,180,536,830 | 1,180,287,664 |
| Net issue of shares | – | 249,166 |
| **At December 31** | **1,180,536,830** | **1,180,536,830** |

The total of issued and outstanding ordinary shares as of December 31, 2005 is 1,180,536,830 with a par value of USD 1.00 per share with one vote each.

## 28. Business combinations and other acquisitions

### a. As described in AP B, management has applied IFRS 3 to the business combinations detailed below

On May 4, 2005, the Company completed the acquisition of 97% of the equity in S.C. Donasid S.A., a Romanian steel producer, for approximately USD 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.

On July 26, 2004 Tenaris acquired all of the shares of Tubman International Ltd. (“Tubman”), a company incorporated under the laws of Gibraltar, which owned 84.86% of the shares of S. C. Silcotub S.A. (“Silcotub”) and controlling interests in two minor subsidiaries, and all of the shares of Intermetal Com S.r.l. (“Intermetal”) for a total consideration of USD 42.0 million. Silcotub, the minor subsidiaries and Intermetal are incorporated in Romania. The acquisition of these companies did not generate goodwill.

On July 9, 2004 Tenaris and Sidor, through their jointly owned company Matesi, acquired the industrial facilities for the production of pre-reduced HBI located in Ciudad Guayana, Venezuela, from Posven, a Venezuelan company. The price of the acquisition was USD 120.0 million. The acquisition did not generate goodwill. As of December 31, 2005 Tenaris held 50.2% of Matesi, while Sidor owned the remaining 49.8%.

Subsequently, Tenaris reached agreement with the Romanian privatization agency (“AVAS”) to settle litigation commenced by the latter against Tubman in connection with its alleged breach of certain obligations under the privatization agreement under which Tubman purchased control of S.C. Laminorul S.A. (“Laminorul”). Pursuant to the agreement, signed on November 1, 2004 Tenaris transferred 9,931,375 shares of Laminorul (representing 69.99% of Laminorul’s capital stock) to the Romanian government, retaining 2,334,145 shares (16.45% of Laminorul’s capital stock).

The businesses acquired in 2004 contributed revenues of USD 93.2 million and net income of USD 6.1 million to Tenaris. Businesses acquired in 2005 did not materially contribute to the Company’s revenue and income.

The assets and liabilities arising from the acquisitions are as a follows:

All amounts in USD thousands

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| Other assets and liabilities (net) | (41,755) | (25,060) |
| Property, plant and equipment | 67,211 | 191,097 |
| Goodwill | 769 | – |
| **Net assets acquired** | **26,225** | **166,037** |
| Minority interest | (527) | (8,034) |
| **Total non-current liabilities (*)** | **–** | **(60,408)** |
| **Total liabilities assumed** | **–** | **(60,408)** |
| **Sub-total** | **25,698** | **97,595** |
| Cash-acquired | – | 5,177 |
| Common stock issued in acquisition of minority interest | – | 820 |
| **Purchase consideration** | **25,698** | **103,592** |
| Liabilities paid as part of purchase agreement | 22,594 | – |
| **Total disbursement** | **48,292** | **103,592** |

Net cash consideration (total disbursement less cash acquired and common stock issued in acquisition of minority interest) amounted to USD 48,292 and USD 97,595 at December 31, 2005 and 2004 respectively.

(*) At December 31, 2004 includes Matesi's liability with Sidor (minority shareholder of Matesi).

### b. Incorporations

On January 23, 2004 Tenaris Investments Limited was incorporated in Ireland to assist the financial activities of the Company and its other subsidiaries; on that date, Tenaris underwrote all of the common shares of the new company and increased the subsidiary's capital stock to USD 50.0 million.

### c. Asset purchases

On February 2, 2004 Tenaris completed the purchase of the land and manufacturing facilities that were previously leased by its Canadian operating subsidiary. The assets were acquired from Algoma Steel Inc. for the price of approximately USD 9.6 million, plus transaction costs.

### d. 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 of this conversion, Tenaris recognized a gain of USD 83.1 million in 2004. As a result, Tenaris's 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 interest in Amazonia and its interest in Ylopa, for 209,460,856

shares in Ternium, a new company formed by San Faustin N.V. (a Netherlands Antilles corporation and 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") reached agreement with Ternium to exchange its interests in Amazonia, Ylopa and Siderar S.A.I.C., plus additional consideration of approximately USD 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's 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 USD 2.7 million at Tenaris's percentage of ownership was recognized in other reserves in equity.

In addition, as of December 31, 2005, Tenaris had also extended two loans totaling approximately USD 40.4 million to Ternium, consisting of principal amount of USD 39.7 million plus accrued interest. The principal amount of these loans at the date issue corresponded to the amount of excess cash distributions received from Amazonia during the second and third quarters of 2005. The loans were convertible into shares of Ternium at the discretion of Tenaris upon the occurrence of: 1) maturity of the loan in July and August 2011; 2) an event of default as defined in certain loan agreements between Ternium and its banks. Conversion of the loan was mandatory upon an initial public offering ("IPO") of shares by Ternium.

On February 1, 2006, Ternium completed its initial public offering of shares, issuing an additional 248,447,200 shares (equivalent to 24,844,720 ADS) at a price of USD 2.00 per share, or USD 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 additional shares to other shareholders corresponding to their mandatory convertible loans. As a result of the IPO and the conversion of loans, as of February 1, 2006, Tenaris's ownership stake in Ternium common stock amounted to 11.59%.

Because the exchange of its holdings in Amazonia and Ylopa for shares in Ternium, were considered to be transactions between companies under common control, Tenaris has 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 USD 229.7 million while Tenaris's proportional ownership in the equity of Ternium at September 30, 2005 amounted to USD 252.3 million. The difference of USD 22.6 million between the carrying value of Amazonia and Ylopa and Tenaris's proportional ownership in the equity of Ternium will be maintained in the future. As a result of this accounting treatment, Tenaris's reported value of its investment in Ternium will not reflect its proportional ownership of Ternium's net equity position.

Until September 30, 2005, Tenaris recognized its proportional earnings in Amazonia and Ylopa, which amounted to USD 94.3 million. For the quarter ended December 31, 2005, Tenaris recognized earnings from its investment in Ternium in the amount of USD 21.8 million. Going forward, Tenaris will continue to recognize its share of Ternium's earnings to the extent of its proportional ownership.

### e. Acindar

On May 18, 2005, Siat S.A., a subsidiary of Tenaris, and Acindar Industria Argentina de Aceros S.A. ("Acindar")

signed a letter of intent pursuant to which Siat confirmed its intention to acquire Acindar's welded pipe assets and facilities located in Villa Constitucion, province of Santa Fe, Argentina, for USD 28.0 million. On January 31, 2006 Siat completed this acquisition. The facilities acquired have an annual capacity of 80,000 tons of welded pipes whose small diameter range largely complements the range of welded pipes that Tenaris produces in Argentina. Of the USD 28.0 million purchase price, approximately USD 4.0 million are pending of completion of certain actions by Acindar.

### f. Capital investment

On September 16, 2004 Tenaris's board of directors approved an investment to construct a gas-fired 120 MW combined heat and power plant in Dalmine, Italy with an estimated cost of approximately EUR 109 million (approximately USD 131 million). This investment is expected to improve the competitiveness of Tenaris's Italian seamless pipe operations by reducing energy costs and securing a reliable source of power.

## 29. 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 III Industrial Investments Inc., a Cayman Islands corporation. The Company's 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 controlling entity of the Company is Rocca & Partners S.A., a British Virgin Islands corporation.

The following transactions were carried out with related parties:

| AT DECEMBER 31, 2005 | Associated [1] | Other | TOTAL |
|---|---|---|---|
| (I) TRANSACTIONS | | | |
| a. SALES OF GOODS AND SERVICES | | | |
| Sales of goods | 104,054 | 75,948 | **180,002** |
| Sales of services | 7,499 | 7,830 | **15,329** |
| | **111,553** | **83,778** | **195,331** |
| b. PURCHASES OF GOODS AND SERVICES | | | |
| Purchases of goods | 67,814 | 33,949 | **101,763** |
| Purchases of services | 15,773 | 63,220 | **78,993** |
| | **83,587** | **97,169** | **180,756** |

| AT DECEMBER 31, 2004 | Associated [2] | Other | TOTAL |
|---|---|---|---|
| (I) TRANSACTIONS | | | |
| a. SALES OF GOODS AND SERVICES | | | |
| Sales of goods | 26,088 | 46,844 | **72,932** |
| Sales of services | 15,365 | 9,618 | **24,983** |
| | **41,453** | **56,462** | **97,915** |
| b. PURCHASES OF GOODS AND SERVICES | | | |
| Purchases of goods | 30,648 | 32,484 | **63,132** |
| Purchases of services | 7,526 | 51,305 | **58,831** |
| | **38,174** | **83,789** | **121,963** |

| AT DECEMBER 31, 2003 | Associated [2] | Other | TOTAL |
|---|---|---|---|
| (I) TRANSACTIONS | | | |
| a. SALES OF GOODS AND SERVICES | | | |
| Sales of goods | 5,206 | 52,659 | **57,865** |
| Sales of services | 2,895 | 8,916 | **11,811** |
| | **8,101** | **61,575** | **69,676** |
| b. PURCHASES OF GOODS AND SERVICES | | | |
| Purchases of goods | 26,679 | 44,305 | **70,984** |
| Purchases of services | 459 | 64,334 | **64,793** |
| | **27,138** | **108,639** | **135,777** |
| c. ACQUISITIONS OF SUBSIDIARIES | – | **(304)** | **(304)** |

| AT DECEMBER 31, 2005 | Associated [3] | Other | TOTAL |
|---|---|---|---|
| (II) YEAR-END BALANCES | | | |
| a. ARISING FROM SALES / PURCHASES OF GOODS / SERVICES | | | |
| Receivables from related parties | 30,988 | 15,228 | **46,216** |
| Payables to related parties [1] | (21,034) | (8,413) | **(29,447)** |
| | **9,954** | **6,815** | **16,769** |
| b. OTHER BALANCES | **42,437** | – | **42,437** |
| c. FINANCIAL DEBT | | | |
| Borrowings and overdrafts [4] | **(54,801)** | – | **(54,801)** |

| AT DECEMBER 31, 2004 | Associated [2] | Other | TOTAL |
|---|---|---|---|
| (II) YEAR-END BALANCES | | | |
| a. ARISING FROM SALES / PURCHASES OF GOODS / SERVICES | | | |
| Receivables from related parties | 25,593 | 27,070 | **52,663** |
| Payables to related parties [1] | (4,914) | (12,487) | **(17,401)** |
| | **20,679** | **14,583** | **35,262** |
| b. CASH AND CASH EQUIVALENTS | | | |
| Time deposits | – | 6 | **6** |
| c. OTHER BALANCES | | | |
| Trust fund | – | 119,666 | **119,666** |
| Convertible debt instruments – Ylopa | 121,955 | – | **121,955** |
| | **121,955** | **119,666** | **241,621** |
| d. FINANCIAL DEBT | | | |
| Borrowings and overdrafts [5] | (51,457) | (5,449) | **(56,906)** |

| AT DECEMBER 31, 2003 | Associated [2] | Other | TOTAL |
|---|---|---|---|
| (II) YEAR-END BALANCES | | | |
| a. ARISING FROM SALES / PURCHASES OF GOODS / SERVICES | | | |
| Receivables from related parties | 6,253 | 35,863 | **42,116** |
| Payables to related parties | (18,968) | (18,251) | **(37,219)** |
| | **(12,715)** | **17,612** | **4,897** |
| b. CASH AND CASH EQUIVALENTS | | | |
| Time deposits | – | 420 | **420** |
| c. OTHER BALANCES | | | |
| Trust fund | – | 118,087 | **118,087** |
| Convertible debt instruments – Ylopa | 33,508 | – | **33,508** |
| | **33,508** | **118,087** | **151,595** |
| d. FINANCIAL DEBT | | | |
| Borrowings and overdrafts | – | (5,716) | **(5,716)** |
| Borrowings from trust fund | – | (1,789) | **(1,789)** |
| | **–** | **(7,505)** | **(7,505)** |

(1) Up to September 30, 2005 includes: Condusid, Ylopa, Amazonia and Sidor. From October 1, 2005 includes: Condusid and Ternium.
(2) Includes: Condusid, Ylopa, Amazonia and Sidor.
(3) Includes: Condusid and Ternium.
(4) Convertible loan from Sidor to Matesi.
(5) Includes convertible loan from Sidor to Matesi of USD 51.5 million at December 31, 2004.

### III. Officers and directors' compensation

The aggregate compensation of the directors and executive officers earned during 2005 and 2004 amounts to USD 14.3 million and USD 9.8 million respectively.

## 30. Cash flow disclosures

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| (I) CHANGES IN WORKING CAPITAL | | | |
| Inventories | (101,143) | (411,045) | (151,766) |
| Receivables and prepayments | 1,513 | (82,845) | 10,900 |
| Trade receivables | (387,240) | (271,225) | 4,142 |
| Other liabilities | 34,526 | (37,443) | 39,585 |
| Customer advances | (14,156) | 72,678 | 17,636 |
| Trade payables | 32,561 | 108,693 | (27,653) |
| | **(433,939)** | **(621,187)** | **(107,156)** |
| (II) INCOME TAX ACCRUALS LESS PAYMENTS | | | |
| Tax accrued | 568,753 | 220,376 | 63,918 |
| Taxes paid | (419,266) | (175,717) | (202,488) |
| | **149,487** | **44,659** | **(138,570)** |
| (III) INTEREST ACCRUALS LESS PAYMENTS, NET | | | |
| Interest accrued | 29,236 | 32,683 | 16,708 |
| Interest paid, net | (27,317) | (15,710) | (19,740) |
| | **1,919** | **16,973** | **(3,032)** |
| (IV) CASH AND CASH EQUIVALENTS | | | |
| Cash and bank deposits | 707,356 | 311,579 | 247,834 |
| Bank overdrafts | (24,717) | (4,255) | (9,804) |
| Restricted bank deposits | (2,048) | (13,500) | – |
| | **680,591** | **293,824** | **238,030** |

## 31. Principal subsidiaries

The following is a list of Tenaris's subsidiaries and its direct and indirect percentage of ownership of each company at December 31, 2005, 2004 and 2003.

| COMPANY | COUNTRY OF ORGANIZATION | MAIN ACTIVITY | PERCENTAGE OF OWNERSHIP AT DECEMBER 31 | | |
|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2003 |
| Algoma Tubes Inc. | Canada | Manufacturing of seamless steel pipes | 100% | 100% | 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) | Italy | Trading of energy | 100% | 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% |
| 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% |
| Energy Network S.R.L. (b) | Romania | Trading of energy | 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% | 100% |
| Intermetal Com S.R.L. (a) | Romania | Marketing of scrap and other raw materials | 100% | 100% | – |
| Inversiones Berna S.A. (b) | Chile | Financial company | 100% | – | – |
| Inversiones Lucerna S.A. (b) | Chile | Financial company | 82% | – | – |
| Invertub S.A. and subsidiaries (g) | Argentina | Holding company | – | 100% | 100% |
| Lomond Holdings B.V. and subsidiaries | Netherlands | Procurement services for industrial companies | 100% | 100% | 100% |
| Matesi, Materiales Siderúrgicos S.A. (a) | Venezuela | Production of hot briquetted iron (HBI) | 50% | 50% | – |
| Metalcentro S.A. | Argentina | Manufacturing of pipe-end protectors and lateral impact tubes | 100% | 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% |
| S.C. Donasid and subsidiary (b) | Romania | Manufacturing of steel products | 99% | – | – |
| S.C. Silcotub S.A. and subsidiaries (a) | Romania | Manufacturing of seamless steel pipes | 85% | 85% | – |
| 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. | Argentina | Logistics | 99% | 99% | 99% |
| Sidtam Limited | B.V.I. | Holding company | 100% | 100% | 100% |
| Siprofer A.G. (b) | Switzerland | Holding company | 100% | – | – |

| COMPANY | COUNTRY OF ORGANIZATION | MAIN ACTIVITY | PERCENTAGE OF OWNERSHIP AT DECEMBER 31 | | |
|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2003 |
| 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. (a) | Madeira | Holding company | 100% | 100% | – |
| Tamdel 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 | US | 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% | 100% |
| Tamtrade S.A. de C.V. (g) | Mexico | Marketing of steel products | – | 100% | 100% |
| Techint Investment Netherlands B.V. | Netherlands | Holding company | 100% | 100% | 100% |
| Tenaris Autopartes S.A. de C.V. | Mexico | Manufacturing of supplies for the automotive industry | 100% | 100% | 100% |
| Tenaris Confab Hastes de Bombeio S.A. (a) | Brazil | Manufacturing of steel products for oil extraction | 70% | 70% | – |
| Tenaris Connections A.G. and subsidiaries | Liechtenstein | Ownership and licensing of steel technology | 100% | 100% | 99% |
| Tenaris Financial Services S.A. | Uruguay | Financial services | 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. (previously Socominter 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. (b) | Egypt | Marketing of steel products | 100% | – | – |
| Tenaris Global Services Far East Pte. Ltd. | Singapore | Marketing of steel products | 100% | 100% | 100% |
| Tenaris Global Services (Japan) K.K. (previously DST Japan K.K.) | Japan | Marketing of steel products | 100% | 100% | 100% |
| Tenaris Global Services (Kazakhstan ) LLP (a) | Kazakhstan | Marketing of steel products | 100% | 100% | – |
| Tenaris Global Services Korea | Korea | Marketing of steel products | 100% | 100% | 100% |
| Tenaris Global Services LLC | US | Sales agent of steel products | 100% | 100% | 100% |
| Tenaris Global Services Nigeria Ltd. (previously Tubular DST 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 | US | Marketing of steel products | 100% | 100% | 100% |

| COMPANY | COUNTRY OF ORGANIZATION | MAIN ACTIVITY | PERCENTAGE OF OWNERSHIP AT DECEMBER 31 | | |
|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2003 |
| Tenaris Investments Ltd. (a) | Ireland | Holding company | 100% | 100% | – |
| Tenaris Qingdao Steel Pipes Ltd. (b) | China | Manufacturing of steel pipes and connections | 100% | – | – |
| Tenaris West Africa Ltd. | United Kingdom | Finishing of steel pipes | 100% | 100% | 100% |
| Texas Pipe Threaders Co. | US | Finishing and marketing of steel pipes | 100% | 100% | 100% |
| Tubman Holdings (Gibraltar) LLP (a) | Gibraltar | Holding company | 100% | 100% | – |
| Tubman International Ltd. (a) | Gibraltar | Holding company | 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% |

(a) Incorporated or acquired during 2004.
(b) Incorporated or acquired during 2005.
(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 2003 in "Information Systems and Technologies N.V. and subsidiaries" and in December 2004 in "Invertub S.A. and subsidiaries".
(e) Included in December 2004 in "Insirger S.A. and subsidiaries".
(f) Included in December 2004 in "Tamsider S.A. de C.V. and subsidiaries".
(g) Merged during 2005.
(h) Included in December 2003 and 2004 in "Dalmine Holding B.V. and subsidiaries".

## 32. Reconciliation of net income and shareholders' equity to US GAAP

The principal differences between IFRS and US 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 | 2005 | 2004 | 2003 |
|---|---|---|---|
| NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY IN ACCORDANCE WITH IFRS | 1,277,547 | 784,703 | 210,308 |
| US GAAP ADJUSTMENTS – INCOME (EXPENSES) | | | |
| Deferred income tax (1) | (5,115) | (8,682) | (14,599) |
| Equity in investments in associated companies (2) | 10,531 | (55,026) | – |
| Unrecognized prior service costs (4) | (415) | (74) | (392) |
| Changes in fair value of financial assets (5) | 4,023 | (885) | (1,611) |
| Goodwill amortization (7) | – | 9,023 | 8,764 |
| Effect of adopting IFRS 3 (8) | 8,687 | – | – |
| Cost of exchange offer – Amortization (9) | – | 1,060 | 1,006 |
| Minority interest in above reconciling items | 207 | 220 | 432 |
| **Net income in accordance with US GAAP** | **1,295,465** | **730,339** | **203,908** |
| Weighted average number of shares outstanding – Note 9 (thousands) | 1,180,537 | 1,180,507 | 1,167,230 |
| Consolidated earnings per share before cumulative effect of accounting changes | 1.10 | 0.62 | 0.18 |
| Consolidated earnings per share in accordance with US GAAP | 1.10 | 0.62 | 0.18 |

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| SHAREHOLDERS' EQUITY IN ACCORDANCE WITH IFRS | 3,507,802 | 2,495,924 |
| US GAAP ADJUSTMENTS – INCREASE (DECREASE) | | |
| Deferred income tax (1) | 52,994 | 58,109 |
| Equity in investments in associated companies (2) | (34,362) | (55,026) |
| Unrecognized prior service costs (4) | 2,420 | 2,835 |
| Goodwill impairment (6) | (21,628) | (21,628) |
| Goodwill amortization (7) | 23,545 | 23,545 |
| Effect of adopting IFRS 3 (8) | (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 |
| Exchange of shares in investments in associated companies (3) | (3,938) | – |
| Minority interest in above reconciling items | (1,346) | (1,553) |
| **Shareholders' equity in accordance with US GAAP** | **3,413,593** | **2,488,372** |

Changes in shareholders' equity under US GAAP are as follows:

| YEAR ENDED DECEMBER 31 | 2005 | 2004 |
|---|---|---|
| SHAREHOLDERS' EQUITY AT THE BEGINNING OF THE YEAR IN ACCORDANCE WITH US GAAP | 2,488,372 | 1,887,207 |
| Net income for the year in accordance with US GAAP | 1,295,465 | 730,339 |
| Foreign currency translation adjustment | (15,562) | 4,174 |
| Exchange of shares in investments in associated companies | (57,918) | – |
| Dilution of investments in Ternium | 56,698 | – |
| Capital increase | – | 820 |
| Changes in fair value of financial assets | (4,023) | 885 |
| Dividends paid | (349,439) | (135,053) |
| **Shareholders' equity at the end of the year in accordance with US GAAP** | **3,413,593** | **2,488,372** |

### 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 US 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 US GAAP the Company calculated the effect of the other US GAAP adjustments on deferred income taxes.

### 2. Equity in investments in associated companies

Under both IFRS and US 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 US GAAP adjustments on the IFRS financial statements of its equity investees. As a consequence of this assessment, the Company recognized a net gain adjustment of USD 10.5 million and a net loss adjustment of USD 55.0 million for the years ended December 31, 2005 and 2004, respectively, corresponding to its share of its equity investees' earnings and losses. Following is a description of the most significant differences between IFRS and US GAAP as they relate to the Company's equity investees:

I. Amazonia had previously recorded an impairment provision on its investment in Sidor in previous years. During 2004, and due to improved conditions in the economic environment and in the market for Sidor's products, and based on projections of future cash flows estimated by Amazonia's management, the impairment provision was reversed under IFRS. No impairment provision has been recorded under US GAAP.

II. Under IFRS, Venezuela was considered a hyperinflationary economy until December 31, 2002. Accordingly, IAS 29 was applied and the local currency, restated for the effects of inflation, was used as Amazonia's functional currency until December 31, 2002. Under US GAAP, Venezuela was considered a hyperinflationary country only until December 31, 2001. Accordingly, under US GAAP, the US dollar was used as Amazonia's functional currency until December 31, 2001.

III. Under IFRS, Sidor accounted for the debt restructuring process carried out in fiscal year 2003 under IAS 39, and accordingly, recorded a gain on the restructuring of its debt. Under US GAAP, Sidor followed the provisions contained in SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring" ("SFAS No. 15"), which states that no gain on restructuring of payables shall be recognized unless the remaining carrying amount of the payable exceeds the total future cash payments (including amounts contingently payable) specified by the terms of the debt remaining unsettled after the restructuring.

IV. Differences in the accounting treatment for changes in fair value of financial assets as explained in Note 32 (5).

V. Under US GAAP the Company calculated the effect of the above mentioned adjustments on deferred income taxes.

### 3. Accounting for exchange of shares 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 US 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 US GAAP, the Company accounted for the change in interest in Ternium's ownership that resulted from Usiminas's exchange directly in equity.

### 4. 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 US GAAP, past service costs are recognized over the remaining service periods of active employees.

### 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 US 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 US 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 USD 17.4 million (net of an accumulated amortization of USD 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 US GAAP raises a difference in amortization expense for the periods in which amortization of goodwill was required.

### 7. Goodwill amortization

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 US 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 No. 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 32 (6).

### 8. 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 USD 110.8 million in the beginning balance of the Company's equity under IFRS at January 1, 2005.

Under US 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 US 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 are considered part of the cost of the business acquired resulting in the recognition of additional goodwill.

Under US 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.

This 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. As such, no difference in amortization exists for the year ended December 31, 2005.

### 10. Minority interest

This adjustment represents the effect on minority interest of all the foregoing differences between IFRS and US 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 US GAAP, net income is shown net of the portion of the Company's gain (loss) for the year attributable to minority shareholders. Accordingly, for US GAAP purposes, net income represents the gain (loss) attributable only to majority equity holders.

## 33. Other significant US GAAP disclosure requirements

The following is a summary of additional financial statement disclosures required under US GAAP:

### a. Income taxes

The tax loss carry-forwards at December 31, 2005, expire as follows:

| EXPIRATION DATE | Amount |
|---|---|
| December 31, 2009 | 27,308 |
| Not subject to expiration | 6,021 |
| **Total** | **33,329** |

### b. Statement of consolidated comprehensive income under US 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.

| YEAR ENDED DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| NET INCOME | 1,295,465 | 730,339 | 203,908 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Foreign currency translation adjustment | (15,562) | 4,174 | 309 |
| Financial assets’ changes in fair value [1] | – | 1,143 | 1,611 |
| Reclassification adjustment for available for sale assets for gains realized in net income [1] | (4,023) | (258) | – |
| **Total other comprehensive (loss) income** | **(19,585)** | **5,059** | **1,920** |
| **Comprehensive income** | **1,275,880** | **735,398** | **205,828** |

(1) Net of income tax amounting to (USD 2,305), USD 616 and USD 868 for the years ended December 31, 2005, 2004 and 2003, respectively.

The accumulated balances related to each component of other comprehensive income were as follows:

| FOREIGN CURRENCIES TRANSLATION ADJUSTMENT AT DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Balance at the beginning of the period | 92,750 | 88,576 | 88,267 |
| Adjustment of the period | (15,562) | 4,174 | 309 |
| **Balance at the end of the period** | **77,188** | **92,750** | **88,576** |

| FINANCIAL ASSETS’ CHANGES IN FAIR VALUE AT DECEMBER 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Balance at the beginning of the period | 4,023 | 3,138 | 1,527 |
| Adjustment of the period | – | 1,143 | 1,611 |
| Realized gains or losses transferred to the income statement | (4,023) | (258) | – |
| Balance at the end of the period | – | **4,023** | **3,138** |

### c. Amortization of intangible assets – licenses and patents

| ESTIMATED AMORTIZATION EXPENSE | |
|---|---|
| For the year ending December 31, 2006 | 964 |
| For the year ending December 31, 2007 | 404 |
| For the year ending December 31, 2008 to 2010 | 255 |

### d. Impact of new US GAAP accounting standards not yet adopted

1. Statement of Financial Accounting Standard No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140" ("SFAS No. 155")

In February 2006, the FASB issued SFAS No. 155, which amends Statements No. 133 and 140. This Statement:

a. Permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation.

b. Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133.

c. Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation.

d. Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives.

e. Amends Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

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 fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement No. 133 prior to the adoption of this Statement. Earlier adoption is permitted. Provisions of this Statement may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis.

At adoption, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as a cumulative-effect adjustment to beginning retained earnings. An entity should separately disclose the gross gains and losses that make up the cumulative-effect adjustment, determined on an instrument-by-instrument basis. Prior periods should not be restated.

The Company's management has not assessed the potential impact of this standard on its financial statements.

2. Statement of Financial Accounting Standard No. 154, "Accounting Changes and Error Corrections – a replacement of APB No. 20 and SFAS No. 3" ("SFAS No. 154")

In May 2005, the FASB issued SFAS No. 154, which replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. This Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this Statement.

The Company's management believes that the application of SFAS No. 154 will not have a material impact on the Company's financial condition or results of operations.

3. Emerging Issues Task Force Issue 05-08 ("Issue 05-08")

In September 2005, the Emerging Issues Task Force ("EITF") discussed Issue 05-08, which establishes additional guidance with respect to accounting for income tax consequences of issuing convertible debt with a beneficial conversion feature. Issue 05-08 should be applied to financial statements beginning in the first interim or annual reporting period beginning after December 15, 2005. This Issue should be applied by retrospective application pursuant to FASB Statement No. 154 to all instruments with a beneficial conversion feature accounted for under Issue 00-27. Therefore, this Issue would also be applicable to debt instruments that were converted (or extinguished) in prior periods but are still presented in the financial statements. Early application is permitted in periods for which financial statements have not been issued.

The Company's management believes that the application of EITF 05-08 will not have a material impact on the Company's financial condition or results of operations.

4. Emerging Issues Task Force Issue 05-07 ("Issue 05-07")

In September 2005, the EITF discussed Issue 05-07, which addresses how to account for modifications to conversion options embedded in debt instruments and other related issues. This Issue applies to convertible debt instruments that are accounted for under APB Opinion No. 14 and related interpretations and to modifications that are not accounted for as extinguishments under Issue 96-19. This Issue should be applied to future modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. Early application of this guidance is permitted in periods for which financial statements have not yet been issued.

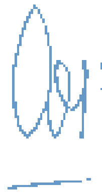
The Company's management believes that the application of EITF 05-07 will not have a material impact on the Company's financial condition or results of operations.

5. Emerging Issues Task Force Issue 05-06 ("Issue 05-06")

In June and September 2005, the EITF discussed Issue 05-06, which addresses the amortization period for leasehold improvements in operating leases that are either (a) placed in service significantly after and not contemplated at or near the beginning of the initial lease term or (b) acquired in a business combination. This Issue does not address the amortization of intangible assets that may be recognized in a business combination for the favorable or unfavorable terms of a lease relative to market prices. The Task Force reached a consensus that leasehold improvements acquired in a business combination should

be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured (as defined in paragraph 5 of FASB Statement No. 13) at the date of acquisition. Also, the Task Force reached a consensus that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured (as defined in paragraph 5 of FASB Statement No. 13) at the date the leasehold improvements are purchased. Furthermore, at the September 15, 2005 meeting, the Task Force agreed to clarify that the consensus in this Issue does not apply to preexisting leasehold improvements. Therefore, the consensus in this Issue should not be used to justify the reevaluation of the amortization period for preexisting leasehold improvements for additional renewal periods that are reasonably assured when new leasehold improvements are placed into service significantly after and are not contemplated at or near the beginning of the lease term. This Issue should be applied to leasehold improvements (within the scope of this Issue) that are purchased or acquired in reporting periods beginning after Board ratification of the consensus (June 29, 2005). Early application of the consensus is permitted in periods for which financial statements have not been issued.

The Company's management has not assessed the potential impact of this standard on its financial statements.



**Carlos Condorelli**
Chief Financial Officer

# Report and audited annual accounts of Tenaris S.A.

Luxembourg GAAP
as at December 31, 2005

# Tenaris S.A. Annual Report

December 2005

The board of directors of Tenaris S.A. (the "Company" or "Tenaris") submits its annual accounts in accordance with Luxembourg legal and regulatory requirements for the financial year 2005.

### Results for the financial year

Profit for the financial year ended December 31, 2005 totalled USD 984.6 million, compared to USD 373.5 million for the financial year ended December 31, 2004.

During the financial year, the Company received the following dividends from its subsidiaries and associated companies:

| | USD |
|---|---|
| Siderca S.A.I.C. | 270,311,745 |
| Invertub S.A. | 25,895,921 |
| Tubos de Acero de México S.A. | 101,229,261 |
| Sidtam Ltd. | 1,519,991 |
| Ylopa – Serviços de Consultadoria Lda. | 50,312,872 |
| **Total** | **449,269,790** |

Our 2005 full year results reflect the strong performance of our seamless pipe business, where we are the leading supplier of seamless pipe products to the global oil and gas industry. With the increase in oil and gas drilling activity, particularly in complex operating environments, we have been increasing our sales of specialized high-end products, such as premium connections, sour service and high collapse grades used in deeper and more corrosive environments and special deepwater line pipe for risers and flowlines. Net sales of our seamless pipes, which accounted for 76% of our total net sales, rose 57% with particularly strong growth recorded in the Middle East and Africa region. Our welded pipe business also enjoyed a good year with strong demand for welded pipes for gas pipeline projects in its regional markets of Brazil and Argentina.

### Corporate reorganization

Tenaris reorganized its investments in subsidiaries and associated companies as follows:

In March 2005, Tenaris made an irrevocable, non-refundable and unconditional contribution of EUR 22.3 million (USD 29.4 million) in Dalmine S.p.A. for a future capital increase.

On April 28, 2005 Invertub S.A. was merged into Siderca S.A.I.C. ("Siderca"); as a consequence, Tenaris held directly 100.0% of Siderca. According to Argentine regulations, which require at least two shareholders, Tenaris kept 97.5% of the share capital in Siderca and sold 2.5% to its wholly-owned subsidiary, Tenaris Global Services S.A. (Uruguay).

During the financial year the Company increased its beneficial ownership in Tubos de Acero de México S.A. ("Tamsa") to 100.0% by the acquisition from Siderca International A.p.S (wholly-owned by Siderca) of 41.4% of Tamsa and 51.0% of Sidtam Ltd. (which holds 2.9% of Tamsa) and other operations.

### Investment activities

On June 3, 2005 Tenaris entered into a letter agreement pursuant to which it irrevocably committed to exchange its equity interest in Consorcio Siderurgia Amazonia Ltd. ("Amazonia") and Ylopa Serviços de Consultadoria Lda. ("Ylopa") for shares in Ternium S.A. ("Ternium"), a new company organized under the laws of Luxembourg, formed by San Faustin N.V. (a Netherlands Antilles corporation and controlling shareholder of Tenaris) to consolidate flat and long steel producers Siderar S.A.I.C., Siderúrgica del Orinoco C.A. and Hylsamex S.A. de C.V.

On September 9, 2005 the Company exchanged its 21.2% equity interest in Amazonia and its 24.4% equity interest in Ylopa for 209,460,856 shares in Ternium and as a result of the exchange, Tenaris obtained a 17.9% interest in Ternium.

On October 27, 2005, Usinas Siderurgicas de Minas Gerais S.A., a shareholder in Amazonia and Ylopa, reached an agreement with Ternium to exchange its interests in Amazonia and Ylopa, plus an additional consideration of approximately USD 114.1 million, for an equity stake in Ternium. As a result of this transaction, Tenaris ownership stake in Ternium at the balance sheet date corresponds to 15.0% of Ternium's outstanding common stock.

During the second and third quarter of 2005, Tenaris received USD 39.7 million as "Excess Cash" from Amazonia and Ylopa. This amount was lent to Ternium in the form of two convertible loans in July and August 2005.

On February 1, 2006, Ternium completed its initial public offering ("IPO") of shares, issuing an additional 248,447,200 shares (equivalent to 24,844,720 ADS) at a price of USD 2.0 per share, or USD 20.0 per ADS. As a result of Ternium's IPO, Tenaris received an additional 20,252,338 shares upon the mandatory conversion of the two convertible loans granted to Ternium in July and August 2005. In addition to the shares issued to Tenaris, Ternium issued additional shares to other shareholders corresponding to their mandatory convertible loans. As of February 1, 2006, Tenaris's ownership stake in Ternium common stock corresponds to 11.6%.

Also on October 27, 2005, the Company made an irrevocable, non-refundable and unconditional contribution of USD 50.0 million to Tenaris Investments Limited.

### Shares in subsidiaries and associated companies

After completing the reorganization and investment activities, Tenaris's shares in subsidiaries and associated companies at December 31, 2005 were as follows:

| COMPANY | COUNTRY | % of direct & indirect ownership | Book value at 31.12.2004 USD | Additions USD | Decreases USD | Book value at 31.12.2005 USD |
|---|---|---|---|---|---|---|
| Invertub S.A. | Argentina | _ | 320,559,994 | _ | (320,559,994) | – |
| Siderca S.A.I.C. | Argentina | 100.0% | 1,325,215,732 | 320,559,994 | (40,825,000) | **1,604,950,726** |
| Dalmine S.p.A. | Italy | 99.3% | 137,571,875 | 29,714,824 | – | **167,286,699** |
| Tubos de Acero de México S.A. | Mexico | 100.0% | 364,425,740 | 218,900,000 | (280,081,537) | **303,244,203** |
| Tenaris Global Services S.A. | Uruguay | 100.0% | 63,047,650 | _ | – | **63,047,650** |
| Ylopa – Serviços de Consultadoria Lda. | Madeira | – | 1,812,787 | _ | (1,812,787) | – |
| Talta – Trading e Marketing Lda. | Madeira | 100.0% | 6,817 | _ | _ | **6,817** |
| Tenaris Investments Limited | Ireland | 100.0% | 50,010,000 | 50,000,000 | _ | **100,010,000** |
| Tenaris Connections A.G. | Liechtenstein | 100.0% | 11,567,000 | _ | _ | **11,567,000** |
| Tamsider LLC | US | 100.0% | 87,752,000 | _ | _ | **87,752,000** |
| Consorcio Siderurgia Amazonia Ltd. | Cayman Islands | – | _ | 208,409,000 | (208,409,000) | – |
| Ternium S.A. | Luxembourg | 15.0% | _ | 419,466,310 | _ | **419,466,310** |
| Sidtam Ltd. | B.V.I. | 100.0% | _ | 7,702,000 | _ | **7,702,000** |
| **Shares in subsidiaries and associated companies** | | | **2,361,969,595** | **1,254,752,128** | **(851,688,318)** | **2,765,033,405** |

## Dividends

The annual ordinary shareholders' meeting held on May 25, 2005 approved the payment of a USD 199.5 million dividend to Tenaris's shareholders, and, on November 8, 2005, the Board of Directors approved the payment of an interim dividend of USD 149.9 million.

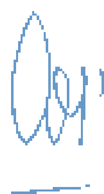
Tenaris's shareholders' equity, reflecting the results for the financial year and dividend payments mentioned above, is as follows:

| ITEM | Share capital USD | Legal reserve USD | Share premium USD | Other distributable reserve USD | Retained earnings USD | Shareholders' equity USD |
|---|---|---|---|---|---|---|
| **Balance at the beginning of the financial year** | **1,180,536,830** | **118,053,683** | **609,732,757** | **82,001** | **536,459,095** | **2,444,864,366** |
| Dividends paid (1) | – | – | – | (82,001) | (199,428,723) | **(199,510,724)** |
| Interim dividend (2) | – | – | – | – | (149,928,177) | **(149,928,177)** |
| Profit for the financial year | – | – | – | – | 984,636,093 | **984,636,093** |
| **Balance at the end of the financial year** | **1,180,536,830** | **118,053,683** | **609,732,757** | **–** | **1,171,738,288** | **3,080,061,558** |

(1) As approved by the ordinary shareholders' meeting held on May 25, 2005.
(2) As approved by the board of directors on November 8, 2005.

## Outlook

We expect to sustain profitability given the positive outlook of the oil and gas industry and therefore demand for our products.



**Carlos Condorelli**
Chief Financial Officer

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Société à responsabilité limitée
Réviseur d'entreprises
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# Report of the independent auditor

To the Shareholders
Tenaris S.A.
46a, Avenue John F. Kennedy
L-1855 Luxembourg

We have audited the annual accounts of Tenaris S.A. for the year ended December 31, 2005 and have read the related management report. These annual accounts and the management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to check the consistency of the management report with them.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Tenaris S.A. as of December 31, 2005 and of the results of its operations for the year then ended.

The management report is in accordance with the annual accounts.

Luxembourg, March 1, 2006

**PricewaterhouseCoopers S.à r.l.**
**Réviseur d'entreprises**
Represented by

**Mervyn R. Martins**

R.C.S. Luxembourg B 65 477 - TVA LU17564447

# Balance sheet

as at December 31, 2005

Expressed in USD

| YEAR ENDED DECEMBER 31 | NOTES | 2005 | 2004 |
|---|---|---|---|
| ASSETS | | | |
| FORMATION EXPENSES | 3.1 | 2,384 | 4,772 |
| FIXED ASSETS | | | |
| Intangible assets – Reorganization cost | 3.2 | 6,590,124 | 9,750,240 |
| | | | |
| FINANCIAL ASSETS | | | |
| Shares in subsidiaries and associated companies | 4.1 | 2,765,033,405 | 2,361,969,595 |
| Loans to subsidiaries and associated companies | 4.2 | 93,731,189 | 93,139,058 |
| | | **2,865,357,102** | **2,464,863,665** |
| CURRENT ASSETS | | | |
| Intercompany receivables | 5 | 11,360,543 | 95,983,182 |
| Other receivables | | 157,505 | 120,301 |
| Short term investments | 6 | 569,836,138 | 44,339,871 |
| Cash at banks | | 267,883 | 287,899 |
| | | **581,622,069** | **140,731,253** |
| **Total assets** | | **3,446,979,171** | **2,605,594,918** |
| | | | |
| LIABILITIES | | | |
| SHAREHOLDERS' EQUITY | 7 | | |
| Share capital | | 1,180,536,830 | 1,180,536,830 |
| Share premium | | 609,732,757 | 609,732,757 |
| Reserves | | | |
| Legal reserve | 8 | 118,053,683 | 118,053,683 |
| Other distributable reserve | 9 | 82,001 | 96,637,538 |
| Retained earnings | 9 | 536,459,095 | 201,480,203 |
| Dividend paid | | (199,510,724) | (135,053,413) |
| Interim dividend paid | 10 | (149,928,177) | – |
| Profit for the financial year | | 984,636,093 | 373,476,768 |
| | | **3,080,061,558** | **2,444,864,366** |
| PROVISIONS | | | |
| Tax provision | 11 | 308,753 | 325,030 |
| Other provisions | | 53,298 | 339,755 |
| | | **362,051** | **664,785** |
| DEBTS | | | |
| Intercompany – due within a year | 12 | 134,210,490 | 70,248,120 |
| Intercompany – due within more than a year | 13 | 229,989,952 | 87,752,000 |
| Accounts payable | | 2,355,120 | 2,065,647 |
| | | **366,555,562** | **160,065,767** |
| **Total liabilities** | | **3,446,979,171** | **2,605,594,918** |

The accompanying notes are an integral part of these annual accounts.

# Profit and loss account

## for the financial year ended December 31, 2005

Expressed in USD

| YEAR ENDED DECEMBER 31 | NOTES | 2005 | 2004 |
|---|---|---|---|
| CHARGES | | | |
| Amortization of formation expenses | 3.1 | 2,388 | 2,388 |
| Amortization of reorganization cost | 3.2 | 3,160,116 | 3,160,121 |
| Administrative and general expenses | 14 | 6,279,039 | 7,415,500 |
| Interest expense – intercompany | 12&13 | 7,921,801 | 945,072 |
| Realized loss on exchange | | 3,331,102 | 5,086,183 |
| Taxes | 11 | 297,660 | 308,760 |
| **Profit for the financial year** | | **984,636,093** | **373,476,768** |
| **Total charges** | | **1,005,628,199** | **390,394,792** |
| INCOME | | | |
| Dividend income | 15 | 449,269,790 | 292,588,615 |
| Gain for sale of shares in affiliated companies | 16 | 282,510,593 | – |
| Other gain from transactions with affiliated companies | 16 | 262,112,472 | – |
| Interest income | | 9,586,096 | 8,386,257 |
| Result on holding of short term investments | | 505,812 | – |
| Realized gain on exchange | | 674,856 | 384,106 |
| Other income | 17 | 968,580 | 89,035,814 |
| **Total income** | | **1,005,628,199** | **390,394,792** |

The accompanying notes are an integral part of these annual accounts.

# Notes to the audited annual accounts
as at December 31, 2005

## 1. Background and description of the business

Tenaris S.A. (the "Company" or "Tenaris") was incorporated on December 17, 2001 under the name of Tenaris Holding S.A. as a limited liability company (taking advantage of the law of July 31, 1929, on holding companies) under the laws of Luxembourg. Then, on June 26, 2002, it changed its name to Tenaris S.A.

Tenaris's objective is to invest mainly in companies that manufacture and market seamless steel tubes and other businesses. Tenaris and its subsidiaries are leading manufacturers and suppliers of seamless steel pipe products and services to the oil and gas, energy and other industries, with production, distribution and service capabilities in key markets worldwide.

Tenaris prepares and publishes consolidated financial statements which include further information on Tenaris and its subsidiaries. They are available at the registered office of the Company, 46a avenue John F. Kennedy, L-1855, Luxembourg.

## 2. Summary of significant accounting policies

### 2.1 Accounts

The accounts have been prepared in accordance with Luxembourg legal requirements and accounting standards, on a basis consistent to that used in the annual accounts for the financial year ended December 31, 2004.

### 2.2 Foreign currency translation

Financial assets, current assets and liabilities denominated in currencies other than the United States dollar ("USD") are translated into USD at the rate of exchange at the balance sheet date. The resulting gains or losses are reflected in the profit and loss account for the financial year. Income and expenses in currencies other than the USD are translated into USD at the exchange rate prevailing at the date of each transaction.

### 2.3 Formation expenses

Formation expenses are amortized over a period of five years.

### 2.4 Reorganization cost

Reorganization cost comprises mainly fees for professional services that were incurred in the reorganization process. These costs are amortized over a period of five years.

### 2.5 Financial assets

Financial assets are stated at cost. In case of other than a temporary decline in the value of an investment, its carrying value will be reduced to recognize this decline. Reductions in the carrying value will be reversed in case of a rise in the value of the investment or when the reasons for the reduction no longer exist.

### 2.6 Short term investments

Short term investments are valued at market value, expressed in USD, at the balance sheet date.

## 3. Formation expenses and fixed assets

### 3.1 Formation expenses

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| COST | 12,467 | 12,467 |
| ADJUSTMENT | (532) | (532) |
| | **11,935** | **11,935** |
| AMORTIZATION | | |
| At the beginning of the financial year | 7,163 | 4,775 |
| Charge for the financial year | 2,388 | 2,388 |
| **At the end of the financial year** | **9,551** | **7,163** |
| **Net book value at the end of the financial year** | **2,384** | **4,772** |

### 3.2 Reorganization cost

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| VALUE AT THE BEGINNING OF THE FINANCIAL YEAR | 15,800,610 | 15,829,675 |
| NET DISPOSALS | – | (29,065) |
| | **15,800,610** | **15,800,610** |
| AMORTIZATION | | |
| At the beginning of the financial year | 6,050,370 | 2,890,249 |
| Charge for the financial year | 3,160,116 | 3,160,121 |
| **At the end of the financial year** | **9,210,486** | **6,050,370** |
| **Net book value at the end of the financial year** | **6,590,124** | **9,750,240** |

## 4. Financial assets

### 4.1 Shares in subsidiaries and associated companies

Investments in subsidiaries and associated companies at December 31, 2005 (expressed in USD) comprise:

| COMPANY | COUNTRY | % of direct & indirect ownership | Book value at 31.12.2004 USD | Additions USD | Decreases USD | Book value at 31.12.2005 USD |
|---|---|---|---|---|---|---|
| Invertub S.A. | Argentina | _ | 320,559,994 | _ | (320,559,994) | – |
| Siderca S.A.I.C. | Argentina | 100.0% | 1,325,215,732 | 320,559,994 | (40,825,000) | **1,604,950,726** |
| Dalmine S.p.A. | Italy | 99.3% | 137,571,875 | 29,714,824 | – | **167,286,699** |
| Tubos de Acero de México S.A. | Mexico | 100.0% | 364,425,740 | 218,900,000 | (280,081,537) | **303,244,203** |
| Tenaris Global Services S.A. | Uruguay | 100.0% | 63,047,650 | _ | _ | **63,047,650** |
| Ylopa – Serviços de Consultadoria Lda. | Madeira | – | 1,812,787 | _ | (1,812,787) | _ |
| Talta - Trading e Marketing Lda. | Madeira | 100.0% | 6,817 | _ | _ | **6,817** |
| Tenaris Investments Limited | Ireland | 100.0% | 50,010,000 | 50,000,000 | _ | **100,010,000** |
| Tenaris Connections A.G. | Liechtenstein | 100.0% | 11,567,000 | _ | _ | **11,567,000** |
| Tamsider LLC | US | 100.0% | 87,752,000 | _ | _ | **87,752,000** |
| Consorcio Siderurgia Amazonia Ltd. | Cayman Islands | – | _ | 208,409,000 | (208,409,000) | _ |
| Ternium S.A. | Luxembourg | 15.0% | _ | 419,466,310 | _ | **419,466,310** |
| Sidtam Ltd. | B.V.I. | 100.0% | _ | 7,702,000 | _ | **7,702,000** |
| **Shares in subsidiaries and associated companies** | | | **2,361,969,595** | **1,254,752,128** | **(851,688,318)** | **2,765,033,405** |

Dalmine

In March 2005, Tenaris made an irrevocable, non-refundable and unconditional contribution of EUR 22.3 million (USD 29.4 million) in Dalmine S.p.A. ("Dalmine") for a future capital increase. Additionally, the Company continued purchasing remaining shares from third parties according to Italian regulations at EUR 0.10 per share, being the total acquisition in the year of 1,395,223 shares.

Siderca and Invertub

On April 28, 2005 Invertub S.A. was merged into Siderca S.A.I.C. ("Siderca"); as a consequence, Tenaris held directly 100.0% of Siderca. According to Argentine regulations, which require at least two shareholders, Tenaris kept 97.5% of the share capital in Siderca and sold 2.5% to its wholly-owned subsidiary, Tenaris Global Services S.A. (Uruguay). The value in the direct investment in Siderca had a net increase of USD 279.7 million.

Tamsa and Sidtam

On September 6, 2005 the Company acquired 41.4% of Tubos de Acero de México S.A. ("Tamsa") and 51.0% of Sidtam Ltd., a company incorporated under the laws of the British Virgin Islands, which holds 2.9% of Tamsa; both formerly held by its subsidiary Siderca International A.p.S.

Tenaris Investments Ltd.

On October 27, 2005 Tenaris made an irrevocable, non-refundable and unconditional contribution of USD 50.0 million.

Tamsa

On November 28, 2005 Tamsa shareholders' meeting decided to reduce the 46.7% of its capital. Further to this transaction the company:

1. Increased its beneficial ownership to 100.0%.
2. Reduced the value of its investment in USD 280.1 million.
3. Received USD 502.6 million in exchange for the shares being redeemed.
4. Recognized under the caption "Other gain from transactions with affiliated companies" a profit of USD 222.5 million, in the Profit and loss account for the financial year.

Movements in Consorcio Siderurgia Amazonia Ltd. ("Amazonia"), Ylopa Serviços de Consultadoria Lda. ("Ylopa"), and Ternium S.A ("Ternium") investments are detailed in Note 16.

## 4.2 Loans to subsidiaries and associated companies

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| Talta – Trading e Marketing Lda. | 51,294,279 | 54,311,590 |
| Ternium S.A. | 40,357,805 | – |
| Consorcio Siderurgia Amazonia Ltd. | 2,079,105 | – |
| Ylopa – Serviços de Consultadoria Lda. | – | 38,827,468 |
| | **93,731,189** | **93,139,058** |

On July 28, 2005 and August 16, 2005 Tenaris and Ternium entered into two convertible loan agreements, pursuant to which Tenaris made two loans to Ternium for USD 21.7 million and USD 18.0 million, respectively, corresponding to "Excess Cash" received from Amazonia and Ylopa during the second and third quarter of 2005. These loans were convertible into shares of Ternium at the discretion of Tenaris upon the occurrence of any of two events: 1) maturity of the loan in July and August 2011; 2) an event of default as defined in certain loan agreements between Ternium and its banks. The conversion price under events (1) and (2) based on a fair value opinion issued by a major bank contracted for that purpose by Tenaris. In the event of an initial public offering ("IPO"), conversion was mandatory being the conversion price the net price set at the IPO. On February 1, 2006 the two loans were converted into shares in Ternium, as explained in Note 20.

In July 2004, Tenaris granted a loan to Talta – Trading e Marketing Lda., for a nominal value of USD 60.3 million for the indirect acquisition of an industrial facility in Venezuela. The non-current portion of this loan at December 31, 2005 amounts to USD 51.3 million.

Tenaris was the beneficiary of 24.4% share of a convertible loan payable by Amazonia to Ylopa for a nominal value of USD 31,127,637. This convertible loan accrued at an annual interest rate of 15.9%. At December 31, 2004, the outstanding value of this receivable was USD 38,827,468. On February 3, 2005, Tenaris elected to convert its outstanding subordinated convertible loan with Amazonia into equity; this equity interest was exchanged for shares in Ternium on September 9, 2005, as explained in Note 16.

## 5. Intercompany receivables

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| Techint Investments Netherlands B.V. | – | 85,845,319 |
| Talta – Trading e Marketing Lda. | 11,294,079 | 9,800,352 |
| Tenaris Global Services S.A. | 34 | 461 |
| Tenaris Investments Limited | 66,430 | 60,774 |
| Dalmine S.p.A. | – | 276,276 |
| | **11,360,543** | **95,983,182** |

## 6. Short term investments

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| Time deposits with subsidiaries | 183,286,698 | 36,285,650 |
| Liquidity funds | 351,745,016 | 8,054,221 |
| Agency bonds | 34,804,424 | – |
| | **569,836,138** | **44,339,871** |

## 7. Shareholders' equity

| ITEM | Share capital USD | Legal reserve USD | Share premium USD | Other distributable reserve USD | Retained earnings USD | Shareholders' equity USD |
|---|---|---|---|---|---|---|
| **Balance at the beginning of the financial year** | **1,180,536,830** | **118,053,683** | **609,732,757** | **82,001** | **536,459,095** | **2,444,864,366** |
| Dividends paid [1] | – | – | – | (82,001) | (199,428,723) | **(199,510,724)** |
| Interim dividend [2] | – | – | – | – | (149,928,177) | **(149,928,177)** |
| Profit for the financial year | – | – | – | – | 984,636,093 | **984,636,093** |
| **Balance at the end of the financial year** | **1,180,536,830** | **118,053,683** | **609,732,757** | **–** | **1,171,738,288** | **3,080,061,558** |

(1) As approved by the ordinary shareholders' meeting held on May 25, 2005.
(2) As approved by the board of directors on November 8, 2005. See Note 10.

The authorized capital of the Company amounts to USD 2,500 million. The total authorized share capital of the Company is represented by 2,500,000,000 shares with a par value of USD 1 per share. The total capital issued and fully paid-up at December 31, 2005 was 1,180,536,830 shares with a par value of USD 1 per share.

The board of directors is authorized to increase the issued share capital, through issues of shares within the limits of the authorized capital for a period of 5 years starting June 26, 2002.

## 8. Legal reserve

In accordance with Luxembourg law, the Company is required to set aside a minimum of 5% of its annual net profit for each financial period to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve has reached 10% of the issued subscribed capital. The Company's reserve has already reached this 10%. The legal reserve is not available for distribution to the shareholders.

## 9. Other distributable reserve and retained earnings

Dividends may be paid by Tenaris upon the Ordinary shareholders' meeting's approval, to the extent distributable reserve and distributable retained earnings exist. At December 31, 2005, the distributable reserve, distributable retained earnings and profit for the financial year of Tenaris under Luxembourg law totalled USD 1,171.7 million.

## 10. Interim dividend paid

On November 16, 2005, the Company paid an interim dividend of USD 149.9 million based on the board of director's decision of November 8, 2005 and in compliance with the conditions set out in the law of 10 August 1915 on commercial companies regarding the payment of the mentioned interim dividend.

## 11. Taxes

The Company is subject to the tax regime applicable to billionaire holdings as defined by the law dated July 31, 1929.

## 12. Debts – Intercompany – due within a year

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| Accounts payable (1) | 195,054 | 4,254,483 |
| Loans for acquisition of shares in subsidiaries and associated companies (2) | 35,406,436 | 34,198,097 |
| Debts for acquisition of shares in subsidiaries and associated companies (1) | 98,609,000 | – |
| Advances from debtors | – | 31,795,540 |
| | **134,210,490** | **70,248,120** |

(1) Are interest free and have no fixed terms of repayment.
(2) Principal amount: USD 34,914,577; which accrues interest at LIBOR plus 0.5%, due in 2006.
Total amount of interest accrued for 2005 was USD 1.2 million.

## 13. Debts – Intercompany – due within more than a year

It represents the debt for the acquisition of Tamsa and Sidtam, as mentioned in Note 4.1, which accrues interest at LIBOR plus 0.5%, due in March 2007. Interest at December 31, 2005 amounts to USD 3.4 million.

The debt for the acquisition of Tamsider LLC, in 2004 for an amount of USD 87.8 million, plus interest for USD 3.3 million, was cancelled through compensation with the repayment made by Tamsa for the share capital redemption explained in Note 4.1.

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| Debts for acquisition of shares in subsidiaries and associated companies | 229,989,952 | 87,752,000 |
| | **229,989,952** | **87,752,000** |

## 14. Administrative and general expenses

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| Services and fees | 4,238,570 | 5,519,940 |
| Labor cost | 105,714 | 96,700 |
| Board of director's accrued fees | 1,838,002 | 1,797,011 |
| Others | 96,753 | 1,849 |
| | **6,279,039** | **7,415,500** |

## 15. Dividend income

During the financial year, the Company received the following dividends from its subsidiaries and associated companies:

Expressed in USD

| | 2005 | 2004 |
|---|---|---|
| Siderca S.A.I.C. | 270,311,745 | 181,777,546 |
| Invertub S.A. | 25,895,921 | 44,354,669 |
| Tubos de Acero de México S.A. | 101,229,261 | 49,654,460 |
| Sidtam Ltd. | 1,519,991 | – |
| Ylopa – Serviços de Consultadoria Lda. | 50,312,872 | 16,801,940 |
| | **449,269,790** | **292,588,615** |

## 16. Gain for sale of shares in affiliated companies and Other gain from transactions with affiliated companies

Tenaris was the beneficiary of 24.4% share of a convertible loan payable by Amazonia to Ylopa. In February 2005, Tenaris elected to convert its outstanding subordinated loan with Amazonia into equity. The conversion was contemplated under the agreements governing Siderúrgica del Orinoco C.A. ("Sidor") and Amazonia's debt restructuring in June 2003, and consequently Tenaris increased its direct and indirect participation. This transaction resulted in a gain of USD 72.9 million included under the caption "Gain for sale of shares in affiliated companies" in the Profit and loss account for the financial year.

On August 2005, Tenaris acquired all of the shares of Amazonia held by Tamsider and exchanged such shares, as well as the shares held in Ylopa for shares in Ternium, a new company organized under the laws of Luxembourg, formed by San Faustin N.V. (a Netherlands Antilles corporation and controlling shareholder of Tenaris) to consolidate flat and long steel producers Siderar S.A.I.C., Sidor and Hylsamex S.A. de C.V.; as a result of the exchange, Tenaris obtained a 17.9% interest in Ternium.

On October 27, 2005, Usinas Siderurgicas de Minas Gerais S.A., a shareholder in Amazonia and Ylopa, reached an agreement with Ternium to exchange its interests in Amazonia and Ylopa, plus an additional consideration of approximately USD 114.1 million, for an equity stake in Ternium. As a result of this transaction, Tenaris ownership stake in Ternium at the balance sheet date corresponds to 15.0% of Ternium's outstanding common stock.

Tenaris accounted for the acquisition of shares in Ternium on the basis of the equity value informed by Ternium as arising from the initial consolidated financial statements. As a result, Tenaris recognized a gain of USD 209.6 million under the caption "Gain for sale of shares in affiliated companies" in the Profit and loss account for the financial year.

Also during the second and third quarter of 2005, Tenaris received USD 39.7 million as "Excess Cash" from Amazonia and Ylopa, which were recorded under the caption "Other gain from transactions with affiliated companies" of the Profit and loss account for the financial year. This amount was lent to Ternium in the form of two convertible loans as explained in Note 4.2.

On November 28, 2005 Tamsa shareholders' meeting decided to reduce the 46.7% of its share capital. As a result of this transaction the company recognized a gain under the caption "Other gain from transactions with affiliated companies" of USD 222.5 million in the Profit and loss account, as explained in Note 4.1.

## 17. Other income

On December 30, 2003, Dalmine and a consortium led by BHP Billiton Petroleum Ltd. ("BHP") settled their litigation concerning the failure of an underwater pipeline. According to the terms of the settlement, Dalmine would pay BHP a total of GBP 108.0 million. The first two installments of GBP 30.3 million and GBP 30.4 million were paid in January and December 2004, respectively, and the final installment of GBP 30.4 million plus interest at LIBOR plus 1% was paid on March 29, 2005.

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. Techint Investments Netherlands B.V. ("Tenet") –Tenaris's subsidiary as a party of the contract pursuant to which Dalmine was privatized– 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, the arbitral tribunal rendered its final award in the arbitration proceedings. Pursuant to the

award, Fintecna was required to pay to Tenaris the sum of EUR 92.6 million without delay. The proportionate amount of this award according to the beneficial ownership was included in "Other income" in the Profit and loss account for 2004. On March 15, 2005 Fintecna made the required payment.

Consequently, both BHP settlement agreement and the arbitration proceedings have been definitively concluded.

## 18. Guarantees

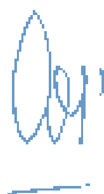
At December 31, 2003 the Company had partially underwritten a two-year guarantee of up to USD 13.5 million in favour of BHP to assure the compliance by Dalmine of the obligations it had assumed under the Settlement Agreement with BHP, dated December 30, 2003 and ending in January 2006. As explained in Note 17, BHP settlement agreement is definitively concluded, and consequently, the mentioned guarantee does no longer exist.

## 19. Parent company

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 III Industrial Investments Inc., a Cayman Islands corporation. The Company's directors and executive officers as a group own 0.2% of the Company's outstanding shares, while the remaining 39.4% is publicly traded. San Faustin N.V. is controlled by Rocca & Partners, a British Virgin Islands corporation.

## 20. Subsequent events

On February 1, 2006, Ternium completed its initial public offering ("IPO") of shares, issuing an additional 248,447,200 shares (equivalent to 24,844,720 ADS) at a price of USD 2.0 per share, or USD 20.00 per ADS. As a result of Ternium's IPO, Tenaris received an additional 20,252,338 shares upon the mandatory conversion of the two convertible loans granted to Ternium in July and August 2005. In addition to the shares issued to Tenaris, Ternium issued additional shares to other shareholders corresponding to their mandatory convertible loans. As of February 1, 2006, Tenaris's ownership stake in Ternium common stock corresponds to 11.6%.



**Carlos Condorelli**
Chief Financial Officer

## Corporate Information

### Registered Office

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(352) 26 47 89 78 tel
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(54) 11 4018 4100 tel
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(52) 55 5282 9900 tel
(52) 55 5282 9961 fax

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(39) 02 4384 7654 tel
(39) 02 4384 7670 fax

## Investor Information

### Investor Relations Director

Nigel Worsnop
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### General Inquiries

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### Phones

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|---|---|
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| Italy | (39) 02 4384 7654 |
| Mexico | (52) 55 5282 9929 |
| US | 1 888 300 5432 |

### Stock Information

New York Stock Exchange (TS)
Bolsa Mexicana de Valores, S.A. de C.V. (TS)
Mercado de Valores de Buenos Aires (TS)
Mercato Telematico Azionario (TEN)

### ADS Depositary Bank

JPMorgan Chase Bank, N.A.
CUSIP Number 88031M019

### Internet

www.tenaris.com

www.tenaris.com