TENARIS SA
Form 20-F
June 30, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**

or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007**

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number: 001-31518

TENARIS S.A.

(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of registrant s name into English)

Grand Duchy of Luxembourg

(Jurisdiction of incorporation or organization)

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

L-1855 Luxembourg

(Address of principal executive offices)

Adelia Soares

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

L-1855 Luxembourg

Tel. + (352) 26 68 31 52, Fax. + (352) 26 68 31 53 , e-mail: asoares@tenaris.com

(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares	New York Stock Exchange
Ordinary Shares, par value $1.00 per share	New York Stock Exchange*

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

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

None

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

None

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

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

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

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

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

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

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

Large accelerated filer x Accelerated Filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other ¨

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 ¨

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

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

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CERTAIN DEFINED TERMS

Unless otherwise specified or if the context so requires:

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

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

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

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

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

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

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

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

We prepare our consolidated financial statements in conformity with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. IFRS differ in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP.

We publish consolidated financial statements expressed in U.S. dollars. Our consolidated financial statements in this annual report are those for the years ended December 31, 2007, 2006 and 2005.

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Currencies

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

- dollars , U.S. dollars , US$ or $ each refers to the United States dollar;
- , EUR or euros each refers to the Euro, the common currency of the European Union;
- Argentine pesos or ARS each refers to the Argentine peso;
- Brazilian real or BRL each refers to the Brazilian real;
- Canadian dollars or CAD each refers to the Canadian dollar;
- Mexican pesos or MXP each refers to the Mexican peso;
- Venezuelan Bolívares or VEB , each refers to the Venezuelan bolívar;
- Yen , Japanese yen or JPY each refers to the Japanese yen; *and*
- Romanian Lei or RON each refers to the Romanian new lei.

On December 31, 2007, the exchange rate between, the euro and the U.S. dollar (as published by European Central Bank) was 1.00=$1.4721; the Argentine peso (as published by *Banco Central de la República Argentina*, or the Argentine Central Bank) was ARS3.1490=$1.00; the noon buying rate for the Brazilian real (as certified for customs purposes by the Federal Reserve Bank of New York, or the Federal Reserve) was BRL1.7790=$1.00; the noon buying rate for the Canadian dollar (as published by the Federal Reserve) was CAD0.9881=$1.00; the noon buying rate for the Mexican peso (as published by the Federal Reserve) was MXP10.9169=$1.00; the noon buying rate for the Venezuelan bolívar (as published by the Federal Reserve) was VEB2,144.60=$1.00; the noon buying rate for the Japanese yen (as published by the Federal Reserve) was JPY111.71=$1.00 and the Romanian Lei on December 28, 2007, (as published by the National Bank of Romania) was RON2.4564 =$1.00. Those rates may differ from the actual rates used in the preparation of our consolidated financial statements. We do not represent that any of these currencies could have been or could be converted into U.S. dollars or that the U.S. dollars could have been or could be converted into any of these currencies.

Rounding; Comparability of Data

Certain monetary amounts, percentages and other figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

Our Internet Site is Not Part of this Annual Report

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

- our ability to implement our business strategy or to grow through acquisitions, joint ventures and other investments;
- our ability to price our products and services in accordance with our strategy;
- trends in the levels of investment in oil and gas exploration and drilling worldwide;
- general macroeconomic and political conditions in the countries in which we operate or distribute pipes; *and*
- our ability to absorb cost increases and to secure supplies of essential raw materials and energy.

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the years and at the dates indicated herein. Our consolidated financial statements were prepared in accordance with IFRS, as issued by the IASB, and were audited by Price Waterhouse & Co. S.R.L., of Argentina, a registered public accounting firm and a member firm of PricewaterhouseCoopers. IFRS differ in certain significant respects from U.S. GAAP.

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

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Thousands of U.S. dollars (except number of shares and per share amounts)	For the year ended December 31, 2007	2006	2005	2004	2003
Selected consolidated income statement data[1]					
IFRS					
Continuing operations					
Net sales	10,042,008	7,727,745	6,209,791	3,718,193	2,846,435
Cost of sales	(5,515,767)	(3,884,226)	(3,429,365)	(2,378,474)	(1,891,308)
Gross profit	4,526,241	3,843,519	2,780,426	1,339,719	955,127
Selling, general and administrative expenses	(1,573,949)	(1,054,806)	(832,315)	(661,226)	(558,697)
Other operating income (expenses), net	4,933	3,773	(2,199)	127,165	(117,961)
Operating income	2,957,225	2,792,486	1,945,912	805,658	278,469
Interest income	93,392	60,798	23,815	14,236	16,424
Interest expense	(275,648)	(92,576)	(52,629)	(46,161)	(32,621)
Other financial results	(22,754)	26,826	(79,772)	38,304	(11,768)
Income before equity in earnings of associated companies and income tax	2,752,215	2,787,534	1,837,326	812,037	250,504
Equity in earnings of associated companies	113,276	94,667	117,377	206,141	27,585
Income before income tax	2,865,491	2,882,201	1,954,703	1,018,178	278,089
Income tax	(823,924)	(869,977)	(567,368)	(217,226)	(61,251)
Income for continuing operations [2]	2,041,567	2,012,224	1,387,335	800,952	216,838
Discontinued operations					
Income (loss) for discontinued operations	34,492	47,180	(3)	4,029	5,600
Income for the year [2]	2,076,059	2,059,404	1,387,332	804,981	222,437
Income attributable to [2]:					
Equity holders of the Company	1,923,748	1,945,314	1,277,547	784,703	210,308
Minority interest	152,311	114,090	109,785	20,278	12,129
Income for the year [2]	2,076,059	2,059,404	1,387,332	804,981	222,437
Depreciation and amortization	(514,820)	(255,004)	(214,227)	(208,119)	(199,799)
Weighted average number of shares outstanding	1,180,536,830	1,180,536,830	1,180,536,830	1,180,506,876	1,167,229,751
Basic and diluted earnings per share for continuing operations	1.60	1.61	1.08	0.66	0.18
Basic and diluted earnings per share	1.63	1.65	1.08	0.66	0.18
Dividends per share[3]	0.38	0.30	0.30	0.17	0.11

(1) Certain comparative amounts for 2005, 2004 and 2003 have been re-presented to conform to changes in presentation in 2006 and 2007, mainly due to the sale of a majority ownership in Dalmine Energie. See note 29 Current and non current assets held for sale and discontinued operations to our audited consolidated financial statements included in this annual report.

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

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

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Thousands of U.S. dollars (except number of shares and per share amounts)	At December 31, 2007	2006	2005	2004	2003
Selected consolidated balance sheet data[1]					
IFRS					
Current assets	[2]6,514,043	6,028,832	3,773,284	3,012,092	2,035,895
Property, plant and equipment, net	3,269,007	2,939,241	2,230,038	2,164,601	1,960,314
Other non-current assets	5,461,537	3,627,169	702,706	485,595	313,339
Total assets	15,244,587	12,595,242	6,706,028	5,662,288	4,309,548
Current liabilities	[2]3,328,066	2,765,504	1,699,101	1,999,846	1,328,677
Non-current borrowings	2,869,466	2,857,046	678,112	420,751	374,779
Deferred tax liabilities	1,233,836	991,945	353,395	371,975	418,333
Other non-current liabilities	283,369	279,117	199,547	208,521	226,495
Total liabilities	7,714,737	6,893,612	2,930,155	3,001,093	2,348,284
Capital and reserves attributable to the Company s equity holders	7,006,277	5,338,619	3,507,802	2,495,924	1,841,280
Minority interest	523,573	363,011	268,071	165,271	119,984
Total liabilities and equity	15,244,587	12,595,242	6,706,028	5,662,288	4,309,548
Number of shares outstanding	1,180,536,830	1,180,536,830	1,180,536,830	1,180,536,830	1,180,287,664

(1) Certain comparative amounts for 2005, 2004 and 2003 have been re-presented to conform to changes in presentation in 2006 and 2007.

(2) In 2007 current assets include current and non current assets held for sale ($651.2 million), related to the divestment of Hydril s pressure control business and current liabilities include liabilities associated with such assets ($267.0 million).

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to our Industry

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

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

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make fewer purchases of steel pipe products. Other circumstances such as geopolitical events and hostilities in the Middle East and elsewhere may also affect drilling activity and, as a result, cause steel pipe consumption to decline.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to our Business

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

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

Significant portions of our operations are located in countries with a history of political volatility or instability, including Argentina, Brazil, Colombia, Mexico, Romania and Venezuela. As a consequence, our business and operations have been, and could in the future be, affected from time to time to varying degrees by political developments, events, laws and regulations (such as forced divestiture of assets; restrictions on production, imports and exports; interruptions in the supply of essential energy inputs; exchange and/or transfer restrictions; inflation; devaluation; war or other international conflicts; civil unrest and local security concerns that threaten the safe operation of our facilities and operations; direct and indirect price controls; tax increases; changes in the interpretation or application of tax laws and other retroactive tax claims or challenges; expropriation of property; changes in laws, norms and regulations; cancellation of contract rights; delays or denials of governmental approvals; and environmental regulations). Both the likelihood of such occurrences and their overall impact upon us vary greatly from country to country and are not predictable. Realization of these risks could have an adverse impact on the results of operations and financial condition of our subsidiaries located in the affected country.

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

While the Argentine government has taken several actions to control inflation and monitor prices for most relevant goods and services, including price support arrangements, inflation has increased since 2004. In addition, Argentina s inflation indicators have been subject to changes in calculation and may not be consistent with the past or may not adequately reflect cost increases. Official inflation figures remain disputed by independent economists. Our business and operations in Argentina may be adversely affected by inflation or by the measures that might be adopted by the government to address such inflation.

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The economy has been affected by supply constraints as capacity idled during the severe recession in 2002 has been utilized. Capital investment, particularly in infrastructure, has lagged mainly due to economic uncertainties and governmental actions, including price controls and other regulatory measures. Investment in energy and transportation infrastructure has been particularly affected. Our business and operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina or by the Argentine government s policy response to such conditions.

Economic and political instability resulted in a severe recession in 2002, which had a lasting effect on Argentina s economy. Should inflation continue to increase or supply constraints hinder future growth, the Argentine economy may not continue to grow at current rates and economic instability may return. Our business and operations in Argentina could be adversely affected by rapidly changing economic conditions in Argentina or by the Argentine government s policy response to such conditions.

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

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

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

The Argentine government has imposed export restrictions and/or export taxes on certain activities, mainly in connection with commodities, gas and oil. Even though so far the Argentine government has not imposed any export restrictions concerning our activities, if any such restrictions were to be imposed, our business and operations in Argentina could be adversely affected.

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

Similarly, we currently have significant exposure to political and economic developments in Venezuela, including the following:

We hold approximately 11.46% of the capital stock of Ternium S.A., or Ternium, a company controlled by San Faustin. Ternium holds approximately 59.7% of Venezuelan steel producer Sidor (while Corporación Venezolana de Guayana, or CVG, a Venezuelan governmental entity holds approximately 20.4% of Sidor and certain Sidor employees and former employees hold the remaining 19.9% interest). We also have a 70% interest in Tavsa, Tubos de Acero de Venezuela S.A, which owns a seamless steel pipe plant located within the Sidor s iron and steel manufacturing complex. The plant uses steel bars supplied by Sidor as its principal raw material, and is also dependent on Sidor for the supply of energy and other inputs. Additionally in July 2004, together with Sidor, we acquired an industrial facility (Matesi), in Ciudad Guayana, Venezuela, to produce hot briquetted iron, or HBI. We own 50.2% of Matesi and Sidor owns the remaining 49.8%.

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On April 8, 2008, the Venezuelan government announced its intention to take control over Sidor, and on April 29, 2008, the National Assembly of the Republic of Venezuela passed a resolution declaring that the shares of Sidor, together with all of its assets, are of public and social interest. On May 13, 2008, Decree Law 6058 regulating the steel production activity in the Guayana, Venezuela region (the Decree) became effective upon its publication on Venezuela s Official Gazette. The Decree orders that Sidor and its subsidiaries and associated companies be transformed into state-owned enterprises (empresas del estado), with Venezuela owning not less than 60% of their share capital. The discussions between Ternium and the Venezuelan government regarding the adequate and fair terms and conditions upon which all or a significant part of Ternium s interest in Sidor would be transferred to Venezuela are presently under way.

The Decree provides for the creation of a committee to negotiate over a 60-day period a fair price for the shares to be transferred to Venezuela. In the event the parties fail to reach agreement by the expiration of the 60-day period, as such term may be extended, the Venezuelan Ministry of Basic Industries and Mining shall assume control and exclusive operation of Sidor, and the Executive Branch shall order the expropriation of the shares of the relevant companies. Accordingly, if Ternium fails to reach agreement with the Venezuelan government, its ownership interest in Sidor could be eliminated altogether, potentially without any immediate compensation. In addition, while the Decree does not provide any valuation criteria for the shares to be transferred to Venezuela, it specifies that any expropriation compensation shall not include lost profits (lucro cesante) or indirect damages. The nationalization process could adversely affect the value of our investment in Ternium. The impact of the potential governmental actions with respect to Sidor on Ternium s financial position is not determinable at this time.

We can give no assurance that the Venezuelan government will not seek in the future the nationalization of our interests in Tavsa or Matesi. Additionally, the nationalization process described above may indirectly affect Tavsa or Matesi if the change in control in Sidor results in failure by Sidor to supply raw materials, energy or other inputs and/or otherwise disrupts their regular operations.

In addition to the above, if other political or economic measures such as expropriation, nationalization, price controls or renegotiation or nullification of contracts were implemented in connection with our Venezuelan operations or with contracts entered by us with companies incorporated in Venezuela, including Petróleos de Venezuela, or PDVSA, the state-owned oil company, operations and revenues, and consequently our financial results, could be adversely affected. The Venezuelan government frequently intervenes in the Venezuelan economy and occasionally makes significant changes in policy. The Venezuelan government s actions to control inflation and implement other policies have involved wage and price controls, currency devaluations, capital controls and limits on imports, among other things. Our business, financial condition, and results of operations could be adversely affected by changes in policy involving tariffs, exchange controls and other matters such as currency devaluation, inflation, interest rates, taxation, industrial laws and regulations and other political or economic developments in or affecting Venezuela.

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

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

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

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

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

A key element of our business strategy is to identify and pursue growth-enhancing strategic opportunities. As part of that strategy, we acquired interests in various companies during recent years. For example, in May 2007, we acquired Hydril Corporation, or Hydril, a leading North American producer of premium connections and pressure control products for the oil and gas industry and in October 2006, we acquired Maverick Tube Corporation, or Maverick, a leading North American producer of welded steel pipe products with operations in the U.S., Canada and Colombia. We will continue actively to consider other strategic acquisitions and partnerships from time to time. We must necessarily base any assessment of potential acquisitions and partnerships on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Our Maverick and Hydril acquisitions, and other past or future acquisitions, significant investments and alliances may not perform in accordance with our expectations and could adversely affect our operations and profitability. In addition, new demands on our existing organization and personnel resulting from the integration of new acquisitions could disrupt our operations and adversely affect our operations and profitability. Moreover, we may also acquire, as part of future acquisitions, assets unrelated to our business, and we may not be able to integrate them or sell them under favorable terms and conditions.

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

In accordance with IFRS, management must test for impairment goodwill and other intangible assets with indefinite useful life annually, or more frequently if there are indicators of impairment, and recognize a non-cash charge in an amount equal to the impairment. In connection with the acquisition of Hydril completed on May 7, 2007, we recorded $1,042 million in goodwill and $1,093 million in other intangible assets (i.e., customer relationships, proprietary technology and trade names and information systems) in 2007. In addition, in connection with the acquisition of Maverick on October 5, 2006, we recorded $1,114 million in goodwill and $1,494 million in customer relationships in 2006. If our management was to determine in the future that the goodwill or other intangible assets recognized in connection with the acquisitions of Hydril or Maverick were impaired, we would be required to recognize a non-cash charge to write down the value of these assets, which would adversely affect our financial condition and results of operations.

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

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

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

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

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

Our sales of pipes for pipeline projects depend to a large extent on the number of active pipeline projects under contract and their rate of progress, particularly in the South American regional market where we have our manufacturing facilities for these products. Future sales of these products depend to a large extent on our ability to secure contracts to supply major pipeline projects and their subsequent implementation. The implementation of such projects varies significantly from year to year. For example, during 2006, our sales of pipes for pipelines projects declined significantly as large pipeline projects in Brazil and Argentina were delayed before recovering again in 2007 when those and other pipeline projects began to be implemented. Our welded pipe revenues and profitability may fluctuate significantly in future years depending on our success in securing large supply contracts and on specific factors such as the cancellation or postponement of specific projects due to changes in governmental policies or adverse developments in economic, political or other factors.

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

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

Risks Relating to the Structure of the Company

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

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

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

In addition, our ability to pay dividends to shareholders is subject to legal and other requirements and restrictions in effect at the holding company level. For example, we may only pay dividends out of distributable retained earnings and distributable reserves calculated in accordance with Luxembourg Law and regulations. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Dividend Policy .

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

The Company was established as a *société anonyme holding* under Luxembourg s 1929 holding company regime and the billionaire provisions relating thereto. 1929 holding companies are exempt from Luxembourg corporate income tax over income derived from low tax jurisdictions and withholding tax over dividends distributions to holders of our shares and ADSs. Following a decision by the European Commission, the Grand-Duchy of Luxembourg has terminated its 1929 holding company regime, effective January 1, 2007. However, under the implementing legislation, pre-existing publicly-listed companies including the Company are entitled to continue benefiting from their current tax regime until December 31, 2010. If we are unable to mitigate the consequences of the termination of the preferential tax regime, we or our shareholders may be subject to a higher tax burden in the future.

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

As of June 4, 2008, San Faustin beneficially owned 60.4% of our shares. Rocca & Partners controls a significant portion of the voting power of San Faustin and has the ability to influence matters affecting, or submitted to a vote of, the shareholders of San Faustin. As a result, Rocca & Partners is indirectly able to elect a substantial majority of the members of our board of directors and has the power to determine the outcome of most actions requiring shareholder approval, including, subject to the requirements of Luxembourg law, the payment of dividends by us. The decisions of the controlling shareholder may not reflect the will or best interests of other shareholders. For example, our articles of association permit our board of directors to waive, limit or suppress preemptive rights in certain cases. Accordingly, our controlling shareholder may cause our board of directors to approve an issuance of shares for consideration without preemptive rights, thereby diluting the minority interest in the Company. See Item 3.D. Risk Factors Risks relating to the Company s shares and ADSs Holders of our shares and ADSs in the United States may not be able to exercise preemptive rights in certain cases .

Risks Relating to the Company s Shares and ADSs

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

Although the Company is organized as a Luxembourg corporation, a significant portion of our assets and operations are located in Latin America and many of our shares and ADSs are held in the portfolios of funds with a mandate to invest in emerging market securities. Financial and securities markets for companies with substantial asset and operational exposure to emerging markets are, to varying degrees, influenced by economic, market conditions and developments in general in other emerging market countries where they are not present. Although economic conditions are different in each country, investor reaction to developments in one country can have significant effects on the securities of issuers with assets or operations in other emerging markets.

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

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

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

You may encounter difficulties in the exercise of some of your rights as a shareholder if you hold ADSs rather than shares. If we make a distribution in the form of securities, the depositary is allowed, at its discretion, to sell that right to acquire those securities on your behalf and instead distribute the net proceeds to you. Also, under certain circumstances, such as our failure to provide the depositary with voting materials on a timely basis, you may not be able to vote by giving instructions to the depositary. In certain circumstances the Company may request the depositary to give a discretionary proxy to the person designated by the Company to vote deposited securities in favor of proposals or recommendations of the Company, including any recommendation to vote in accordance with the majority shareholders vote, the depositary shall grant such proxy unless a different instruction is timely received from the holder of ADS with respect to a determined amount of securities.

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

Pursuant to Luxembourg corporate law, existing shareholders of the Company are generally entitled to preemptive subscription rights in the event of capital increases and issues of shares against cash contributions. Under the Company s articles of association, the board of directors has been authorized to waive, limit or suppress such preemptive subscription rights until 2012. The Company may, however, issue shares without preemptive rights if the newly-issued shares are issued for consideration other than cash, are issued as compensation to directors, officers, agents or employees of the Company or its affiliates, or are issued to satisfy conversion or option rights created to provide compensation to directors, officers, agents or employees of the Company, its subsidiaries or its affiliates. Holders of the Company s ADSs in the United States may, in any event, not be able to exercise any preemptive rights, if granted, for ordinary shares underlying their ADSs unless additional ordinary shares and ADSs are registered under the U.S. Securities Act of 1933, as amended, or Securities Act, with respect to those rights, or an exemption from the registration requirements of the Securities Act is available. Prior to any capital increase or rights offering, the Company will evaluate the costs and potential liabilities associated with the exercise by holders of ADSs of their preemptive rights for ordinary shares underlying their ADSs and any other factors it considers appropriate. The Company may decide not to register any additional ordinary shares or ADSs, in which case the depositary would be required to sell the holders rights and distribute the proceeds thereof. Should the depositary not be permitted or otherwise be unable to sell preemptive rights, the rights may be allowed to lapse with no consideration to be received by the holders of the ADSs.

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

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

Item 4. Information on the Company

Overview

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

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

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

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

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

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

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

A. History and Development of the Company

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

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

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

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

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

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

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

- Algoma Tubes Inc., or AlgomaTubes, the sole Canadian producer of seamless steel pipe products (October 2000);
- S.C. Silcotub S.A., or Silcotub, a leading Romanian producer of seamless steel pipe products (July 2004); *and*
- Maverick, a leading North American producer of welded steel pipe products with operations in the U.S., Canada and Colombia (October 2006).

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

On May 7, 2007, we strengthened our technological capabilities and our global network of pipe finishing, distribution and service facilities through the acquisition of Hydril, a leading North American manufacturer of premium connections and pressure control products for oil and gas drilling production. We integrated Hydril s premium connection business into our global operations and, on April 1, 2008, we sold Hydril s pressure control business to General Electric Company, or GE, for a total consideration of approximately $1,115 million. For more information on the Hydril pressure control business divestment, see Item 5.G. Operating and Financial Review and Prospects Recent Developments Sale of Hydril Pressure Control Business .

B. Business Overview

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

- pursuing strategic acquisition opportunities in order to strengthen our presence in local and global markets;
- expanding our comprehensive range of products and developing new high-value products designed to meet the needs of customers operating in increasingly challenging environments;
- securing an adequate supply of production inputs and reducing the manufacturing costs of our core products; *and*
- enhancing our range of pipe management and other value-added services designed to enable customers to reduce their overall operating costs while integrating our production activities with the customer supply chain.

Pursuing strategic acquisition opportunities and alliances

We have a solid record of growth through strategic acquisitions. We pursue selective strategic acquisitions as a means to expand our operations, enhance our global competitive position and capitalize on potential operational synergies. In May 2007, we acquired Hydril, a leading North American manufacturer of premium connections for steel pipe products used in oil and gas drilling production and, in October 2006, we acquired Maverick, a North American producer of steel pipe products for the energy industry, expanding our operations in North America.

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Developing high-value products

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

Securing inputs for our manufacturing operations

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

Developing pipe management and other value-added services

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

Our Competitive Strengths

We believe our main competitive strengths include:

- our global production, commercial and distribution capabilities, offering a full product range with flexible supply options backed up by local service capabilities in important oil and gas producing and industrial regions around the world;
- our ability to develop, design and manufacture technologically advanced products;
- our solid and diversified customer base and historic relationships with major international oil and gas companies around the world, and our strong and stable market shares in the countries in which we have manufacturing operations;
- our human resources around the world with their diverse knowledge and skills;
- our low-cost operations, primarily at state-of-the-art, strategically located production facilities with favorable access to raw materials, energy and labor, and 50 years of operating experience; *and*
- our strong balance sheet.

Business Segments

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

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

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

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

Our Products

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

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

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

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

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

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

Premium joints and couplings. Premium joints and couplings are specially designed connections used to join lengths of steel casing and tubing for use in high temperature or high pressure environments. A significant portion of our steel casing and tubing products are supplied with premium joints and couplings. We own an extensive range of premium connections, and following the integration of Hydril s premium connections business, we market our premium connection products under the TenarisHydril brand name. In addition, we hold licensing rights to manufacture and sell the Atlas Bradford range of premium connections outside of the United States.

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

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

Production Process and Facilities

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

- state-of-the-art, strategically located plants;
- favorable access to high quality raw materials, energy and labor at competitive costs;
- operating history of 50 years, which translates into solid industrial know-how;
- constant benchmarking and best-practices sharing among the different facilities;

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

extensive use of information technology in our production processes.

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

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

	At or for the year ended December 31,		
	2007	**2006**	**2005**
Thousands of tons			
Steel Bars			
Effective Capacity (annual) (1)	3,450	3,450	3,350
Actual Production	2,985	3,107	2,881
Tubes - Seamless			
Effective Capacity (annual)(1)	3,400	3,400	3,350
Actual Production	2,836	3,013	2,842
Tubes - Welded			
Effective Capacity (annual) (1)	1,860	1,860	
Actual Production (2)	909	316	
Projects - Welded			
Effective Capacity (annual) (1)	850	850	850
Actual Production	499	326	476

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

(2) In 2006, includes production from the Villa Constitución facility for eleven months and from the former Maverick facilities for three months.

Production Facilities - Tubes

North America

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

Mexico. In Mexico, our fully integrated seamless pipe manufacturing facility is located near the major exploration and drilling operations of Mexican state oil company Petróleos Mexicanos, or Pemex, about 13 kilometers from the port of Veracruz on the Gulf of Mexico. The Veracruz plant was inaugurated in 1954. Situated on an area of 450 hectares, the plant includes a state-of-the-art seamless pipe mill and has an installed annual production capacity of approximately 780,000 tons of seamless steel pipes (with an outside diameter range of 2 to 20 inches) and 850,000 tons of steel bars. The plant is served by two highways and a railroad and is close to the port of Veracruz, which reduces transportation costs and facilitates product shipments to export markets.

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The Veracruz facility comprises:

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

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

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

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

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

a cold-drawing mill; *and*

automotive components production machinery.

The major operational units at the Veracruz facility and the corresponding annual installed production capacity (in thousands of tons per year, except for the auto components facility, which is in millions of parts) as of December 31, 2007, and the year operations commenced, are as follows:

	Effective Production Capacity (annual)(1)	**Year Operations Commenced**
Steel Shop	850	1986
Pipe Production Multi-Stand Pipe Mill	700	1983
Pilger Mill	80	1954
Cold-Drawing Mill	35	1963
Auto Components Facility	30	2004

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

In 2007, as part of the acquisition of Hydril, we incorporated into our Mexican operations a threading plant in Veracruz, which produces premium connections and accessories.

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

United States. In the United States we have the following production facilities:

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

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

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

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

Conroe, Texas: A plant located on an area of 47 hectares which processes steel coils to produce ERW OCTG and line pipe, with an outside diameter range of 4 $^{1}/2$ to 8 $^{5}/8$ inches and has an annual production capacity of approximately 250,000 tons. The facility includes one mill, one heat treatment line and one finishing line.

Counce, Tennessee: A plant located on an area of 54 hectares which processes steel coils to produce ERW OCTG and line pipe with an outside diameter range of 4 $^{1}/2$ to 8 $^{5}/8$ inches and has an annual production capacity of approximately 90,000 tons. The facility has one mill and a finishing line capable of producing line pipe products.

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

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

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

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

Furthermore, as part of the acquisition of Hydril, we added the following threading facilities, which are mainly dedicated to the finishing of tubes with premium connections:

McCarty: a threading facility in Houston, Texas, which comprises two main production buildings in an area of approximately 20 hectares;

Westwego: a threading facility located in Louisiana; *and*

Bakersfield: a threading facility in California, mainly used as a repair shop.

Canada. In Canada, we have a seamless steel pipe manufacturing facility located adjacent to the Algoma Steel manufacturing complex in Sault Ste. Marie, near the mouth of Lake Superior in the province of Ontario. The facility includes a semi-retained mandrel mill, a stretch reducing mill and heat treatment and finishing facilities producing seamless pipe products with an outside diameter range of 2 to 9 $^{7}/8$ inches. The effective annual capacity of the facility is at approximately 250,000 tons. The plant was opened in 1986 and was operated as part of Algoma Steel until shortly before it was leased to us in 2000. In February 2004, we completed the purchase of the leased facilities, spare parts and other operating assets. Since we began operating the facility, we have sourced steel bars principally from our steel shops in Argentina and Mexico. In 2007, we signed a 10-year contract with QIT, a Canadian producer of titanium dioxide and high purity iron, under which QIT supplies up to 100,000 tons of round steel bars per year at U.S. dollar prices which vary in accordance with variations in raw material costs. We use steel bars produced in our integrated facilities in Argentina and Mexico for the remainder of our round steel bar requirements.

In addition, we own the Prudential welded steel pipe manufacturing facility based in Calgary, Alberta, which processes steel coils into ERW OCTG and line pipe with an outside diameter range of 2 $^{3}/8$ to 12 $^{3}/4$ inches. The facility, originally commissioned in 1966, includes a slitter, three welding lines and four threading lines. The annual capacity of this plant is at approximately 400,000 tons.

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Moreover, as a result of the acquisition of Hydril, added two threading facilities in Canada:

- *Nisku*: a threading facility located in Alberta, dedicated to premium connections; *and*
- *Dartmouth*: a threading facility in Nova Scotia, mainly used as a repair shop.

South America

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

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

The Campana facility comprises:

- a direct reduced iron, or DRI, production plant;
- a steel shop with two production lines, each including an electric arc furnace, refining equipment, four-strand continuous caster and a cooling bed;
- two continuous mandrel mills, each including a rotary furnace, direct piercing equipment and a cooling bed and one of them also including a stretch reducing mill;
- seven finishing lines, including heat treatment facilities, upsetting machines, threading and inspection equipment and make-up facilities;
- a cold-drawing mill; *and*
- a port on the Paraná river for the supply of raw materials and the shipment of finished products.

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

The major operational units at the Campana facility and corresponding effective annual production capacity (in thousands of tons per year) as of December 31, 2007, and the year operations commenced are as follows:

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

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

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

Venezuela. In Venezuela, we have a seamless steel pipe plant with an annual production capacity of approximately 80,000 tons, located in Ciudad Guayana in the eastern part of the country. The plant is situated on an area comprising 38 hectares within the Sidor C.A., or Sidor, iron and steel manufacturing complex on the banks of the Orinoco River. The plant includes a pilger mill and finishing line, including threading facilities, and produces seamless pipe products with an outside diameter range of 6 $^{5}/8$ to 16 inches. The plant uses steel bars supplied by Sidor, a subsidiary of our affiliate Ternium, as its principal raw material. In July 2004, together with Sidor, we acquired an industrial facility, also in Ciudad Guayana, Venezuela, to produce HBI.

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

Europe

In Europe, we have several seamless pipe manufacturing facilities in Italy and one in Romania and a premium connection threading facility in the United Kingdom.

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

The Dalmine facility comprises:

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

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

- a retained mandrel mill with three finishing lines including two heat treatments;
- a rotary expander with a finishing line including a heat treatment; *and*
- a pilger pipe mill with a finishing line.

The major operational units at the Dalmine facility and corresponding annual effective production capacity (in thousands of tons per year) as of December 31, 2007, and the year operations commenced are as follows:

	Effective Production Capacity (annual) (1)	Year Operations Commenced
Steel Shop	900	1976
Pipe Production		
Pilger Mill	10	1937
Mandrel Mill:		
Floating Mandrel Mill Small Diameter	140	1962
Retained Mandrel Mill Medium Diameter (plus Rotary Expander for Large Diameter)	650	1978

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

The Dalmine facility manufactures seamless steel pipes with an outside diameter range of 21 to 711 mm (0.75 to 28.0 inches), mainly from carbon, low alloy and high alloy steels for diverse applications. The Dalmine facility also manufactures steel bars for processing at our other facilities in Italy.

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

- the Costa Volpino facility, which covers an area of approximately 31 hectares and comprises a cold-drawing mill and an auto components facility producing cold-drawn carbon, low alloy and high alloy steel pipes with an outside diameter range of 12 to 280 mm (0.47 to 11.00 inches), mainly for automotive, mechanical and machinery companies in Europe. The Costa Volpino facility has an annual production capacity of approximately 100,000 tons;
- the Arcore facility, which covers an area of approximately 26 hectares and comprises a Diescher mill with associated finishing lines. Production is concentrated in heavy-wall mechanical pipes with an outside diameter range of 48 to 219 mm (1.89 to 8.62 inches). The Arcore facility has an annual production capacity of approximately 150,000 tons; *and*
- the Piombino facility, which covers an area of approximately 67 hectares and comprises a welded pipe production line (Fretz Moon type) with a hot stretch reducing mill, a hot dip galvanizing line and associated finishing facilities. Production is focused on welded pipe and finishing of small diameter seamless and welded pipe for plumbing applications in the domestic market, such as residential water and gas transport. The Piombino facility has an annual production capacity of approximately 180,000 tons.

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

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

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

- a steel shop including an electric arc furnace, a ladle furnace and a continuous caster;
- a continuous mandrel;
- three finishing lines, including heat treatment facilities, upsetting machine, line pipe, threading, make-up and inspection equipment facilities;
- a coupling shop;
- a cold-drawing plant with finishing area; *and*
- automotive and hydraulic cylinders components production machinery.

Far East and Oceania

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

In November 2006, we began operating a newly constructed facility for the production of premium joints and couplings in Qingdao, on the east coast of China. The facility has an annual production capacity of approximately 40,000 tons of premium joints.

In addition, with the acquisition of Hydril in 2007, we incorporated a premium joints threading facility in the state of Batam, Indonesia.

Production Facilities - Projects

We have two major welded pipe facilities, one in Brazil and one in Argentina, which produce pipes used in the construction of major pipeline projects. The facility in Brazil, operated by Confab, is located at Pindamonhangaba, 160 kilometers from the city of São Paulo. The facility includes an ERW rolling mill and a SAW (submerged arc welding) rolling mill with one spiral line and one longitudinal line. The facility, which was originally opened in 1959, processes steel coils and plates to produce welded steel pipes with an outside diameter range of 4 $^{1}/2$ to 100 inches for various applications, including oil, petrochemical and gas applications. The facility also supplies anticorrosion pipe coating made of extruded polyethylene or polypropylene, external and internal fusion bonded epoxy and paint for internal pipe coating. The facility has an annual production capacity of approximately 500,000 tons.

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

Production Facilities - Others

We have facilities for the manufacture of sucker rods in Villa Mercedes, San Luis, Argentina and in Moreira Cesar, São Paulo, Brazil. In Moreira Cesar, we also have facilities for the manufacture of industrial equipment. As part of the acquisition of Maverick in 2006, we incorporated a welded steel pipe business for electric conduits with manufacturing facilities in Louisville, Kentucky, Cedar Springs, Georgia and Cartagena, Colombia. These plants process steel coils into conduit tubing and have a combined annual capacity of approximately 240,000 tons.

Sales and Marketing

Net Sales

Our total net sales amounted to $10,042 million in 2007, $7,728 million in 2006 and $6,210 million in 2005. For further information on our net sales see Item 5.A. Operating and Financial Review and Prospects Results of Operations .

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

Millions of U.S. dollars	**For the year ended December 31,**					
	2007		**2006**		**2005**	
Tubes	8,552.6	85%	6,826.9	88%	5,128.0	83%
Projects	876.3	9%	453.5	6%	790.0	13%
Others	613.1	6%	447.3	6%	291.8	5%
Total	**10,042.0**	100%	**7,727.7**	100%	**6,209.8**	100%

Tubes

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

	For the year ended December 31,					
Millions of U.S. dollars	**2007**		**2006**		**2005**	
Tubes						
North America	2,921.7	34%	1,993.0	29%	1,663.4	32%
South America	1,221.7	14%	960.3	14%	839.2	16%
Europe	1,661.4	19%	1,315.1	19%	1,024.5	20%
Middle East and Africa	2,057.6	24%	1,895.7	28%	933.4	18%
Far East and Oceania	690.2	8%	662.8	10%	667.4	13%
Total Tubes	**8,552.6**	100%	**6,826.9**	100%	**5,128.0**	100%

North America

Sales to customers in North America accounted for 34% of our sales of tubular products and services in 2007, compared to 29% in 2006 and 32% in 2005.

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

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

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

Our sales in Canada are mainly directed to the oil and gas drilling and transportation sectors. Oil and gas drilling in Canada is subject to strong seasonality with the peak drilling season in Western Canada being during the winter months when the ground is frozen. During the spring, as the ice melts, drilling activity is severely restricted by the difficulty of moving equipment in muddy terrain. During 2007, drilling activity declined significantly as gas producers reacted to a sharp fall in natural gas prices during the second half of 2006 and high Canadian drilling costs by cutting back their investments in gas drilling activities. In addition, the provincial government of Alberta introduced additional uncertainty among oil and gas operators in 2007 by reviewing and increasing royalties payable on oil and gas production.

Our sales to oil and gas customers in the United States have been affected by antidumping duties which were applied since 1995 in respect of the import of OCTG products produced by our main seamless pipe manufacturing subsidiaries. On May 31, 2007, the U.S. International Trade Commission voted to revoke these antidumping duties. For further information, see Item 8.A. Financial Information U.S. Seamless Steel Pipe Antidumping Duty Proceedings . Since the acquisitions of Maverick and Hydril and the revocation of the antidumping duties on our OCTG products, we have integrated a full range of products for our customers and our sales of OCTG products in the United States have been increasing. Sales of line pipe products for deepwater oil and gas applications were not affected by the antidumping restrictions that previously affected the import of some of our seamless line pipe products from Mexico and Argentina and which have also recently been removed. Our sales to the industrial sector have not been affected by antidumping restrictions and are affected primarily by trends in industrial activity.

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

In 2003, Pemex increased exploration and production activity and began to let out politically controversial multiple services contracts to operate some of its gas fields. In 2006, following two years of strong growth, oil and gas exploration and development in Mexico declined as Pemex experienced budgetary constraints just as the costs of drilling rose sharply in response to a strong worldwide upturn in demand for oil and gas drilling services. There was a partial recovery in drilling activity in 2007, but oil production declined as output from Mexico s principal field declined significantly.

Sales to non-oil related customers in Mexico are made directly to those customers or through authorized distributors. The principal Mexican end users, other than Pemex, rely on our products primarily for automotive, thermal, mechanical, conduction and hydraulic uses. Sales to these non-oil customers are primarily affected by trends in North American industrial production activity.

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South America

Sales to customers in South America accounted for 14% of our sales of tubular products and services in 2007, compared to 14% in 2006 and 16% in 2005.

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

A principal component of our marketing strategy in the Argentine and Venezuelan markets is the establishment of long-term supply agreements with significant local and international oil and gas companies operating in those markets.

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

In the past several years, demand from oil and gas customers in Argentina has remained steady but growth in supply has been affected by governmental actions including the application of additional taxes on the export of oil and gas and the freezing of domestic gas tariffs for consumers.

We also serve the demand for steel pipes for other applications in the Argentine market. Demand from this sector has increased in the past three years in response to increased economic activity, particularly in the agricultural sector and in import substitution.

In Venezuela, we have a significant share of the market for OCTG products. We enjoy ongoing business relationships with PDVSA and the joint venture operators in the oil and gas sector. Over the past few years there has been increased government intervention in the Venezuelan oil and gas industry. Following a general strike which ended in early 2004 many employees of PDVSA were dismissed. In 2006, laws were passed which obliged private sector participants in the oil and gas sector to surrender majority control of their oil and gas drilling concessions to PDVSA. In the past three years, drilling activity in Venezuela has remained stable but has not increased in line with global drilling activity. Our sales in Venezuela may be affected by the risks described in Item 3. D. Risk Factors Risks Relating to our Business. Adverse economic or political conditions in the countries where we operate or sell our products and services may decrease our sales or disrupt our manufacturing operations, thereby adversely affecting our revenues, profitability and financial condition .

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

Europe

Sales to customers in Europe accounted for 19% of our sales of tubular products and services in 2007, compared to 19% in 2006 and 20% in 2005.

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

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

Middle East and Africa

Sales to customers in the Middle East and Africa accounted for 24% of our sales of tubular products and services in 2007, compared to 28% in 2006 and 18% in 2005.

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

Our sales in the Middle East and Africa could be adversely affected by political and other events in the region, such as armed conflict, terrorist attacks and social unrest, that could materially impact the operations of companies active in the region s oil and gas industry. Our sales in that region can also be affected by the levels of inventories held by the principal national oil companies in the region and their effect on purchasing requirements.

Far East and Oceania

Sales to customers in the Far East and Oceania accounted for 8% of our sales of tubular products and services in 2007, compared to 10% in 2006 and 13% in 2005.

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

In Japan, our subsidiary, NKKTubes, competes against other domestic producers. The market for steel pipe products in Japan is mostly industrial and depends on general factors affecting domestic investment, including production activity. In the past three years, demand has recovered due to improving economic conditions and strong demand of construction machinery export business for China. Nevertheless, our sales in Japan have declined as we switched production at our Japanese facility to more profitable export markets.

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

Projects

We are a leading regional supplier of welded pipes for gas pipeline construction in South America, where we have manufacturing facilities in Brazil and Argentina. We also supply welded steel pipes to regional mineral slurry pipeline projects for the mining industry and to selected gas pipeline construction projects worldwide. Demand and shipments for our welded steel pipes in this business segment is principally affected by investment in gas pipeline projects in Brazil, Argentina and the rest of South America. These investments can vary significantly from year to year and can be affected by political and financial conditions in the region. In 2006, shipments of our pipes for pipeline projects declined significantly from relatively high levels in the previous year as there were delays in the definition of large pipeline infrastructure projects in Brazil and Argentina but they recovered in 2007 as projects moved forward.

Others

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

Competition

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

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

Our principal competitors in steel pipe markets worldwide are described below.

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

Vallourec, a Franco-German venture, has mills in Brazil, France, Germany and the United States. Vallourec has a strong presence in the European market for seamless pipes for industrial use and a significant market

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share in the international market with customers primarily in Europe, the United States, Brazil and the Middle East. Vallourec is an important competitor in the international OCTG market, particularly for high-value premium joint products. In 2008, Vallourec acquired three tubular businesses from Grant Prideco: Atlas Bradford® Premium Threading & Services, TCA® and Tube-Alloy. In addition, jointly with Sumitomo Vallourec is constructing an integrated seamless mill in Brazil which will be primarily dedicated to OCTG production. Tubos Reunidos S.A. of Spain and Voest Alpine AG of Austria each have a significant presence in the European market for seamless steel pipes for industrial applications, while the latter also has a relevant presence in the international OCTG market.

During the last two years, the tubes and pipes business in the U.S. and Canada has experienced a significant consolidation process. Following the acquisitions of Maverick and Hydril by Tenaris, US Steel Corporation acquired Lone Star Steel Technologies and SSAB has recently agreed to sell IPSCO s Tubular division to Evraz Group S.A. and TMK, two Russian companies. U.S. pipe producers are largely focused on supplying the U.S. and Canadian markets, where they have their production facilities.

Producers from the CIS and China compete primarily in the commodity sector of the market and have been increasing their participation in markets worldwide for standard products. In recent years, TMK, a Russian company, has led consolidation of the Russian steel pipe industry and has expanded through acquisitions into Eastern Europe. Also in recent years, producers in China have increased production capacity and have increased their exports of steel pipe products.

ArcelorMittal has recently created a tubes division. In 2006, through the acquisition of Arcelor, Mittal acquired Dofasco tubular business, focused on the automotive segment in North America and in 2007 acquired a tubular business focused on automotive products from Vallourec. In 2008, ArcelorMittal acquired Unicon, a Venezuelan welded pipe producer focused on the oil and gas sector. ArcelorMittal also has announced projects to build a large diameter welded pipes plant in Nigeria and a seamless pipes mill in Saudi Arabia.

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

Capital Expenditure Program

During 2007, our capital expenditures, including investments at our plants and investments in information systems, amounted to $447.9 million, compared to $441.5 million in 2006 and $284.5 million in 2005. Investment at our plants amounted to $425.6 million in 2007, compared to $414.4 million in 2006 and $264.4 million in 2005. In 2007, we completed an investment program to expand our capacity to produce high value products, mainly increasing our capacity to produce heat-treated and high value-added proprietary premium joint products. The major highlights of our capital spending program during 2007 include:

- construction of a power generation facility at our Dalmine facility in Italy, where operations commenced in May 2007;
- construction of our premium connection threading and coupling facility in China, where operations commenced in November 2006;
- construction of additional heat treatment facilities in our seamless pipe facilities in Mexico and Argentina;
- installation of new testing machines and improvements to finishing and inspection facilities at our Campana facility in Argentina and at our seamless facility in Canada;

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- construction of a new coupling shop and expansion of cold drawing facilities at our Veracruz facility in Mexico;
- construction of a new training center in Dalmine;
- conclusion of the components center and upgrade of process controls at our Romanian steel shop and rolling mill; *and*
- consolidation of high-chromium production processes at NKKTubes.

Capital expenditures in 2008 are expected to be slightly below the level reached in 2007. Our investments will mainly aim at continuing to increase our proportion of high value products, improving quality and process controls, extending our product range, minimizing environmental impact and reducing costs. Major projects planned for 2008 include:

- improvements in plant, processes and equipment, mainly over forming and inspection areas at the welded pipe facilities incorporated in our recent acquisitions;
- completion of the new quality and R&D laboratories at our Dalmine facility in Italy;
- de-bottlenecking and environmental projects at our steel shops in Italy and Romania;
- capacity expansion at our cold drawing plant and construction of a new laboratory at our Zalau facility in Romania;
- revamping of the finishing lines and expansion of our auto components facilities at our Veracruz facility in Mexico; *and*
- completion of the corporate university campus at our Campana facility in Argentina.

In addition to capital expenditures at our plants, we have invested in information systems for the integration of our production, commercial and managerial activities. These investments are intended to promote the further integration of our operating facilities and enhance our ability to provide value-added services to customers worldwide. Investments in information systems totaled $22.2 million in 2007, compared to $26.1 million in 2006 and $19.3 million in 2005.

Raw Materials and Energy

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

Steel scrap, pig iron and DRI

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

To secure an additional source of DRI for our steelmaking operations, we have invested in facilities in Ciudad Guayana, Venezuela, which reduce locally-supplied iron ore into HBI using natural gas as a reductant. Since 1998, we have had an off-take commitment to purchase 75,000 tons per year of HBI from *Complejo Siderúrgico de Guayana C.A.*, or Comsigua, which can be terminated with one year s notice. We hold a 6.9% equity interest in Comsigua. More recently, in July 2004, jointly with Sidor, a subsidiary of our affiliate Ternium, we formed Matesi, and acquired a Venezuelan iron reduction plant. We own 50.2% of Matesi and Sidor owns the remaining 49.8%. The facility, located in Ciudad Guayana, Venezuela, has an annual design capacity in excess of one million tons.

International prices for steel scrap, pig iron and DRI can vary substantially in accordance with supply and demand conditions in the international steel industry. Our costs for these materials increased during 2007 and have risen substantially higher since the beginning of 2008.

Ferroalloys

At each of our steel shops we coordinate our purchases of ferroalloys worldwide. The international costs of ferroalloys can vary substantially. Our costs of ferroalloys increased substantially in 2005, then declined slightly in 2006 and increased again in 2007, in line with international prices for these materials.

Iron ore

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

Round steel bars

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

In Canada, we have a long-term agreement with QIT, a Canadian producer of titanium dioxide and high purity iron, under which QIT supplies up to 100,000 tons of round steel bars per year, at U.S. dollar prices which vary in accordance with variations in raw material costs. We use steel bars produced in our integrated facilities in Argentina and Mexico for the remainder of our round steel bar requirements.

Steel coils and plates

For the production of welded steel pipe products, we purchase steel coils and steel plates principally from domestic producers for processing into welded steel pipes. We have welded pipe operations in Argentina, Brazil, Canada, Colombia and the United States. For our welded pipe operations in the United States and Canada, a significant part of our requirements for steel coils are supplied under long-term contracts with prices set at market levels. Our principal suppliers include Nucor, which has a steel coil manufacturing facilities in Hickman, Arkansas, near to our principal welded pipe facility in the U.S., and Ipsco, which has steel coil manufacturing facilities in Regina, Saskatchewan, Canada. To secure a supply of steel coils for our Hickman facility, we entered into a five year purchase contract with Nucor under which we have committed to purchase around 435,000 tons of steel coils per year with prices adjusted quarterly in accordance with market conditions starting in January 2007. Steel coil prices in the U.S. and Canada and elsewhere have increased sharply since the beginning of 2008. We purchase steel coils and plates for our welded pipe operations in Brazil and Argentina principally from Usiminas and Siderar S.A.I.C., or Siderar, a subsidiary of Ternium.

Energy

We consume substantial quantities of electric energy at our electric steel shops in Argentina, Italy, Mexico and Romania. In Argentina, we have owned sufficient generating capacity to supply the requirements of our steelmaking facility at Campana since we acquired a 160 MW electric power generating facility in 2003. In Italy, we began operations at a newly constructed 120 MW power generation in May 2007, which is designed to meet the electric power requirements of our steelmaking facility at Dalmine. Prior to this start up, our electric power and natural gas requirements in Italy were supplied by Dalmine Energie S.p.A, or DaEn, in which we sold a 75% participation to E.ON Sales and Trading GmbH, an indirect subsidiary of E.ON A.G. in December 2006 and the remaining 25% in November 2007. In Mexico, our electric power requirements are furnished by the Mexican government-owned *Comisión Federal de Electricidad*, or the Federal Electric Power Commission, and in Romania, we source power from the local market.

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

We have transportation capacity agreements with Transportadora de Gas del Norte S.A., or TGN, a company in which San Faustin holds significant but non-controlling interests, corresponding to capacity of 1,000,000 cubic meters per day until April 2017. When the enlargement of the trunk pipelines in Argentina is completed, we expect to obtain additional gas transportation capacity of 315,000 cubic meters per day until 2027. In order to meet our transportation requirements for natural gas above volumes contracted with TGN, we also have agreements with Gas Natural Ban S.A., or Gasban, for interruptible transportation capacity currently corresponding to approximately 970,000 cubic meters per day. The 315,000 cubic meters per day of assigned non-interruptible transportation capacity from TGN is expected to partially replace the capacity currently contracted with Gasban. During winter, if available, we also contract transportation capacity from other suppliers, when Gasban transportation is restricted. For the final transportation phase, we have a supply contract with Gasban that expires in May 2009. In addition to the normal amount of gas consumed at our Italian plants, we also consume substantial quantities of natural gas in connection with the operation of our new power generation facility in Italy which began operations in May 2007. Our natural gas requirements in Italy continue to be supplied by DaEn, even after its transfer to E.On. Natural gas for our HBI plant in Venezuela is supplied by the state-owned PDVSA Gas.

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

Product Quality Standards

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

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

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

Research and Development

Research and development, or R&D, of new products and processes to meet the increasingly stringent requirements of our customers is an important aspect of our business and our spending on R&D has increased significantly over the past three years.

R&D activities are carried out primarily at our specialized research facilities located at our Campana plant in Argentina, a newly constructed facility at our Veracruz plant in Mexico, at the research facilities of the *Centro Sviluppo Materiali S.p.A,* or CSM, in Rome and at the product testing facilities of NKKTubes in Japan. We have an 8% interest in CSM, which was acquired in 1997. In addition, in 2007, we started the construction of a new research facitliy at our Dalmine plant, in Italy. We expect the facility to start up in the second half of 2008.

Product development and research currently being undertaken include:

- proprietary premium joint products including Dopeless® technology;
- heavy wall deep water line pipe and risers;
- tubes and components for the car industry and mechanical applications;
- tubes for boilers; *and*
- welded pipes for oil and gas and other applications.

In addition to R&D aimed at new or improved products, we continuously study opportunities to optimize our manufacturing processes. Recent projects in this area include modeling of rolling and finishing process and the development of different process controls, with the goal of improving product quality and productivity at our facilities.

We spent $61.7 million for R&D in 2007, compared to $46.9 million in 2006 and $34.7 million in 2005.

Environmental Regulation

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

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

Insurance

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

C. Organizational Structure and Subsidiaries

We conduct all our operations through subsidiaries. The following table shows the major operating subsidiaries of the Company and its direct and indirect ownership of each as of December 31, 2007, 2006 and 2005.

	Country of		Percentage Ownership		
Company	**Organization**	**Main Activity**	**2007**	**2006**	**2005**
Algoma Tubes Inc.	Canada	Manufacture of seamless steel pipes	100%	100%	100%
Confab Industrial S.A. [(a)]	Brazil	Manufacture of welded steel pipes and capital goods	39%	39%	39%
Dalmine S.p.A	Italy	Manufacture of seamless steel pipes	99%	99%	99%
Hydril Company	U.S.A.	Manufacture and marketing of premium connections	100%		
Maverick Tube Corporation	U.S.A.	Manufacture of welded steel pipes	100%	100%	
NKKTubes K.K.	Japan	Manufacture of seamless steel pipes	51%	51%	51%
Prudential Steel Ltd.	Canada	Manufacture of welded steel pipes	100%	100%	
S.C. Silcotub S.A.	Romania	Manufacture of seamless steel pipes	100%	97%	85%
Siat S.A.	Argentina	Manufacture of welded steel pipes	82%	82%	82%
Siderca S.A.I.C.	Argentina	Manufacture of seamless steel pipes	100%	100%	100%
Tavsa, Tubos de Acero de Venezuela S.A.	Venezuela	Manufacture of seamless steel pipes	70%	70%	70%
Tenaris Coiled Tubes LLC (and predecessors)	U.S.A.	Manufacture of coiled tubing	100%	100%	
Tenaris Financial Services S.A.	Uruguay	Financial services	100%	100%	100%
Tenaris Global Services S.A.	Uruguay	Holding company and marketing of steel pipes	100%	100%	100%
Tenaris Investments Ltd.	Ireland	Holding company and financial services	100%	100%	100%
Tubos de Acero de México S.A	Mexico	Manufacture of seamless steel pipes	100%	100%	100%
Tubos del Caribe Ltda.	Colombia	Manufacture of welded steel pipes	100%	100%	

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

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Other Investments

Ternium

We have a significant investment in Ternium, one of the leading steel producers of the Americas with production facilities in Argentina, Mexico and Venezuela. Ternium is a company that was formed by San Faustin in a reorganization of its flat and long steel interests. Ternium was listed on the New York Stock Exchange on February 1, 2006, following an initial public offering of ADSs. As of May 31, 2008, we held 11.5% of its outstanding shares.

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

The Company is a party to a shareholders agreement with I.I.I. CI, a wholly owned subsidiary of San Faustin, pursuant to which I.I.I. CI will take all actions in its power to cause one of the members of Ternium s board of directors to be one nominated by the Company and any directors nominated by the Company only be removed pursuant to written instructions by the Company. The Company and I.I.I. CI also agreed to cause any vacancies on the board of directors to be filled with new directors nominated by either the Company or I.I.I. CI, as applicable. The shareholders agreement will remain in effect as long as each of the parties holds at least 5% of the shares of Ternium or until it is terminated by either the Company or I.I.I. CI pursuant to its terms. Carlos Condorelli, our former chief financial officer, was nominated as a director of Ternium pursuant to this agreement.

Ternium is the controlling shareholder of Sidor and, as explained in Item 5.G. Recent Developments Sidor nationalization process , our investment in Ternium is currently subject to the results of the Sidor nationalization process.

Exiros

Exiros, with presence in the United States, Argentina, Brazil, Canada, Italy, Mexico and Romania, provides Tenaris s subsidiaries with purchase agency services in connection with Tenaris s purchases of raw materials and other products or services. Until October 2006, Exiros was a wholly-owned subsidiary of Tenaris. In October 2006, Ternium acquired a 50% interest in Exiros, while Tenaris retained the remaining 50%. Exiros s objectives are to procure better purchase conditions and prices as a result of the combined demand of products and services by both companies demand, as well as to secure joint control over the purchase process.

D. Property Plants and Equipment

For a description of our property, plants and equipment please see Item 4. B. Business Overview Production Process and Facilities and Capital Expenditure Program .

Item 4A. Unresolved Staff Comments.

None.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations are based on, and should be read in conjunction with, our audited consolidated financial statements and the related notes included elsewhere in this annual report. This discussion and analysis presents our financial condition and results of operations on a consolidated basis. We prepare our consolidated financial statements in conformity with IFRS, as issued by the IASB. IFRS differ in certain significant respects from generally accepted accounting principles in the United States, commonly referred to as U.S. GAAP.

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

Overview

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

We are a leading global manufacturer and supplier of steel pipe products and related services for the world s energy industry as well as for other industrial applications. Our customers include most of the world s leading oil and gas companies as well specifically determine otherwise, no Award under the Plan or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution and shall be exercisable, during the Participant s lifetime, only by the Participant. Once awarded, the shares of Common Stock received by Participants may be freely transferred, assigned, pledged or otherwise subjected to lien, subject to the restrictions imposed by the Securities Act of 1933, Section 16 of the Securities Exchange Act of 1934 and the Company s Insider Trading Policy, each as amended from time to time. (e) *Withholding Taxes.* The Company shall have the right to deduct from all Awards paid in cash (and any other payment hereunder) any federal, state, local or foreign taxes required by law to be withheld with respect to such Awards and, with respect to Awards paid in stock or upon exercise of Options, to require the payment (through withholding from the Participant s salary or otherwise) of any such taxes. In addition, if determined by the Committee, a Participant may elect the withholding by the Company of a portion of the shares of Common Stock subject to an Award upon the exercise of such Award, upon the Award being earned or upon Restricted Stock or Restricted Stock Units becoming non-forfeitable (each, a Taxable Event) having a Fair Market Value equal to the minimum amount necessary to satisfy the required withholding liability attributable to the Taxable Event. The Company s obligation to make delivery of Awards in cash or Common Stock shall be subject to currency or other restrictions imposed by any government. (f) *No Rights to Awards.* Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or any of its subsidiaries, divisions or affiliates. Except as set forth herein, no employee or other person shall have any claim or right to be granted an Award under the Plan. By accepting an Award, the Participant acknowledges and agrees (i) that the Award will be exclusively governed by the terms of the Plan, including the right reserved by the Company to amend or cancel the Plan at any time without the Company incurring liability to the Participant (except for Awards already granted under the Plan), (ii) that Awards shall be subject to such rules and limitations as are established by the Committee for the proper administration of the Plan, such as minimums and restrictions on the number of Options that may be exercised during a specified period of time, (iii) that Awards are not a constituent part of salary, wages or compensation for purposes of determining any pension, retirement, death benefit or other benefit under any employee benefit plan of the Company or any subsidiary or for purposes of any agreement between the Participant and the Company unless expressly provided in such agreement, (iv) that the Participant is not entitled, under the terms and conditions of employment, or by accepting or being granted Awards under this Plan to require Awards to be granted to him or her in the future under this Plan or any other plan, (v) that the value of Awards received under the Plan will be excluded from the calculation of termination indemnities or other severance payments, and (vi) that the Participant will seek all necessary approval under, make all required notifications under and comply with all laws, rules and regulations applicable to the ownership of Options and Common Stock and the exercise of Options, including, without limitation, currency and exchange laws, rules and regulations. (g) *Beneficiary Designation.* To the extent allowed by the Committee, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named on a contingent or successive basis) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Unless the Committee shall determine otherwise, each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Company during the Participant s lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant s death shall be paid to the Participant s estate.

(h) *Costs and Expenses.* The cost and expenses of administering the Plan shall be borne by the Company and not charged to any Award or to any Participant.

(i) *Fractional Shares.* Fractional shares of Common Stock shall not be issued or transferred under an Award, but the Committee may pay cash in lieu of a fraction or round the fraction, in its discretion.

(j) *Funding of Plan.* The Company shall not be required to establish or fund any special or separate account or to make any other segregation of assets to assure the payment of any Award under the Plan.

(k) *Indemnification.* Provisions for the indemnification of officers and directors of the Company in connection with the administration of the Plan shall be as set forth in the Company s Certificate of Incorporation and Bylaws as in effect from time to time.

(l) *Successors.* All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

(m) *Compliance with Code Section 409A.* Notwithstanding any provision of the Plan, to the extent that any Award would be subject to Section 409A of the Code, no such Award may be granted if it would fail to comply with the requirements set forth in Section 409A of the Code. To the extent that the Committee determines that the Plan or any Award is subject to Section 409A of the Code and fails to comply with the requirements of Section 409A of the Code, notwithstanding anything to the contrary contained in the Plan or in any Award Agreement, the Committee, reserves the right to amend or terminate the Plan and/or amend, restructure, terminate or replace the Award in order to cause the Award to either not be subject to Section 409A of the Code or to comply with the applicable provisions of such section.

13. Effective Date, Governing Law, Amendments and Termination.

(a) *Effective Date.* The Plan was approved by the Board on February 17, 2005 and shall become effective on the date it is approved by the Company s stockholders (the Effective Date).

(b) *Amendments.* The Board may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards granted prior to the date of such termination or amendment without the consent of the affected Participants. Notwithstanding the foregoing, unless the Company s stockholders shall have first approved the amendment, no amendment of the Plan shall be effective which would (i) increase the maximum number of shares of Common Stock which may be delivered under the Plan or to any one individual (except to the extent such amendment is made pursuant to Section 10 hereof), (ii) extend the maximum period during which Awards may be granted under the Plan, (iii) add to the types of awards that can be made under the Plan, (iv) except as permitted by Section 7(d), change the Performance Goals pursuant to which Performance Awards are earned, (v) modify the requirements as to eligibility for participation in the Plan, or (vi) otherwise require shareholder approval under the listing requirement of the New York Stock Exchange or other law, rule or regulation to be effective. With the consent of the Participant affected, the Committee may amend outstanding agreements evidencing Awards under the Plan in a manner not inconsistent with the terms of the Plan.

(c) *Governing Law.* All questions pertaining to the construction, interpretation, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of Delaware without giving effect to conflict of laws principles.

(d) *Termination.* No Awards shall be made under the Plan after the tenth anniversary of the Effective Date.

DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL

PROXY

UST

ANNUAL MEETING OF STOCKHOLDERS   MAY 3, 2005

The undersigned hereby appoints RICHARD A. KOHLBERGER and MARIA R. SHARPE, or either of them, with full power of substitution, attorneys and proxies to vote all shares of Common Stock of UST Inc. which the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held at Cole Auditorium, Greenwich Library, 101 West Putnam Avenue, Greenwich, Connecticut, on Tuesday, the 3rd day of May 2005, at 10:00 a.m., and at any and all adjournments thereof, on the matters listed on the reverse side which are set forth in the accompanying Proxy Statement.

This Proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, it will be voted FOR Proposals 1, 2 and 3 and AGAINST Proposal 4.

SEE REVERSE SIDE

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

SEE REVERSE SIDE

UST
C/O EQUISERVE TRUST COMPANY N.A.
P.O. BOX 8694
EDISON, NJ 08818-8694

CONSIDER RECEIVING FUTURE UST INC. PROXY MATERIALS VIA THE INTERNET!

Consider receiving future UST Inc. Annual Report and Proxy Materials in electronic form rather than in printed form. While we have not fully implemented electronic distribution of stockholder communications, your advance consent will assist us in preparing materials for electronic distribution. While voting via the Internet, just click the box to give your consent and thereby save UST Inc. the future costs of producing, distributing and mailing these materials.

Accessing UST Inc. Annual Report and Proxy materials via the Internet may result in charges to you from your Internet service provider and/or telephone companies. If you do not consent to access UST Inc. Annual Report and Proxy materials via the Internet, you will continue to receive them in the mail.

Your vote is important. Please vote immediately.

Vote-by-Internet
Log on to the internet and go to
http://www.eproxyvote.com/ust

OR

Vote-by-Telephone
Call toll-free
1-877-PRX-VOTE (1-877-779-8683)

If you vote over the internet or by telephone, please do not mail your card.

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x **Please mark votes as in this example.** **0890**

If no direction is given, this proxy card will be voted FOR Proposals 1, 2 and 3 and AGAINST Proposal 4.

The Board of Directors recommends a vote FOR Proposals 1, 2 and 3.

1. Election of Directors.
Nominees:
(01) J.D. Barr,
(02) R.J. Rossi

FOR ALL NOMINEES o o **WITHHOLD FROM ALL NOMINEES**

For all nominees except vote withheld from the following:
o

		FOR	**AGAINST**	**ABSTAIN**
2.	Approve the UST Inc. 2005 Long-Term Incentive Plan.	o	o	o
3.	To ratify and approve Ernst & Young LLP as independent auditors of the Company for the year 2005.	o	o	o

The Board of Directors recommends a vote AGAINST stockholder proposal 4.

	FOR	**AGAINST**	**ABSTAIN**
4. Stockholder Proposal.	o	o	o

And in their discretion, upon such other business as may properly come before the meeting.

Please sign exactly as name appears hereon. If signing for trusts, estates or corporations, capacity or title should be stated. If shares are owned jointly, both owners must sign. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

Signature:	Date:	Signature:	Date:

EMPLOYEES SAVINGS PLAN

As a participating employee in the UST Inc. Employees Savings Plan, **you are entitled to give Vanguard Fiduciary Trust Company, the Trustee under the Plan, voting instructions** on the instruction card attached below if you wish to vote the shares of the Company s common stock held on your behalf in the Savings Plan at the Annual Meeting of Stockholders to be held on May 3, 2005. If you do not elect to vote, the shares reflected on this Instruction Card will be voted by the Trustee in the same proportion as shares as to which voting instructions have been received. Your instructions to the Trustees will be confidential. A Notice of the 2005 Annual Meeting and Proxy Statement and a 2004 Annual Report are enclosed.

Please complete, sign and date the instruction card below and return it in the envelope provided as soon as possible. Please be sure to complete, sign, date and return any other proxy cards that you receive in the separate envelopes provided.

DETACH HERE IF YOU ARE RETURNING YOUR INSTRUCTION CARD BY MAIL

UST

ANNUAL MEETING OF STOCKHOLDERS MAY 3, 2005
EMPLOYEES SAVINGS PLAN

The undersigned hereby directs Vanguard Fiduciary Trust Company as Trustee of the UST Inc. Employees Savings Plan to vote in person or by proxy all shares of Common Stock of UST Inc. allocated to the undersigned s account at the Annual Meeting of Stockholders to be held at Cole Auditorium, Greenwich Library, 101 West Putnam Avenue, Greenwich, Connecticut, on Tuesday, the 3rd day of May 2005, at 10:00 a.m., and at any and all adjournments thereof, on the matters listed on the reverse side which are set forth in the accompanying Proxy Statement.

This instruction card when properly executed will be voted in the manner directed herein by the undersigned. If no direction is made on your signed Instruction Card, it will be voted FOR Proposals 1, 2 and 3 and AGAINST Proposal 4.

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Vote-by-Telephone
Call toll-free
1-877-PRX-VOTE (1-877-779-8683)

If you vote over the internet or by telephone, please do not mail your card.

DETACH HERE IF YOU ARE RETURNING YOUR INSTRUCTION CARD BY MAIL

x	**Please mark votes as in this example.**	**0890**

If no direction is given, this instruction card will be voted FOR Proposals 1, 2 and 3 and AGAINST Proposal 4.

The Board of Directors recommends a vote FOR Proposals 1, 2 and 3.

					FOR	**AGAINST**	**ABSTAIN**
1.	Election of Directors. **Nominees:** (01) J.D. Barr, (02) R.J. Rossi			2. Approve the UST Inc. 2005 Long-Term Incentive Plan.	o	o	o
	FOR ALL NOMINEES	o	o **WITHHOLD FROM ALL NOMINEES**	3. To ratify and approve Ernst & Young LLP as independent auditors of the Company for the year 2005.	o	o	o
	For all nominees except vote withheld from the following: o						

The Board of Directors recommends a vote AGAINST stockholder proposal 4.

	FOR	**AGAINST**	**ABSTAIN**
4. Stockholder Proposal.	o	o	o

And in their discretion, upon such other business as may properly come before the meeting.

Please sign exactly as name appears hereon. If signing for trusts, estates or corporations, capacity or title should be stated.

Signature: Date: