

Italy

Tenaris

3 to 2/Outperform

Oil Services

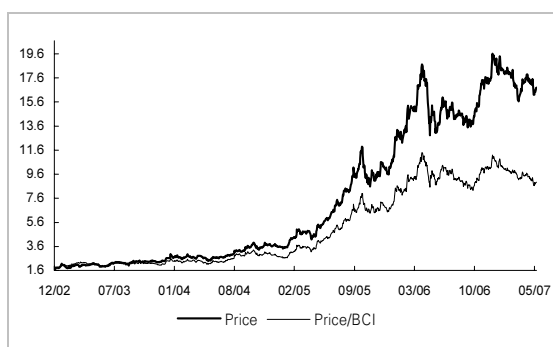
18 May 2007 – Rating upgrade

More growth in the pipeline

- ▶ **We raise our rating to 2/Outperform and lift our target price from EUR17 (USD46 for ADR) to EUR19.4 (USD52.3 for ADR).**
- ▶ After a sustained underperformance and weak Q1 results Tenaris now looks like a good buying opportunity, given the **strong OCTG industry fundamentals, driven by the rapid increase in drilling capacity.**
- ▶ **Tenaris has just expanded in the US market via Maverick and Hydril**, which could yield major benefits from H2-07. With these acquisitions, it has both enriched its product range and gained access to the largest OCTG market in the world.
- ▶ An additional catalyst could be the **upcoming review of US anti-dumping legislation**, which could ease the barriers for Latam and introduce constraints for Chinese imports. We estimate that a favourable ruling could lift our valuation by up to EUR2.
- ▶ Although it recently invested USD5.3bn in external growth, **Tenaris still has the financial flexibility to expand further.** We estimate that it could invest >USD5bn in external growth, with the potential to enlarge its size by a further 20%.
- ▶ Our new target price points to 15% upside and is backed by affordable multiples: Tenaris still presents a significant discount vs. oil services peers and now a less evident premium vs. Vallourec.

Closing Price (17/05 share/ADR)	EUR16.8/USD45.7			
Target price (share/ADR)	+15% EUR19.4/USD52.3			
Market capitalisation	USD26 763m			
BCI	2 135.92			
To 31/12 (\$)	2006	2007E	2008E	2009E
Sales (m)	7727.0	10271.9	11139.8	11559.3
Net att. profit, rest. (m)	1944.6	2113.0	2265.5	2390.5
Free Cash Flow (m)	1369.9	1796.2	2341.0	2597.7
EBITDA margin (%)	39.4	35.9	35.7	36.0
Clean EPS	1.65	1.79	1.92	2.03
Reported EPS	1.65	1.79	1.92	2.03
P/E (x)	15.1	12.7	11.8	11.2
Attrib. FCF yield (%)	4.7	6.4	8.3	9.2
EV/EBITDA (x)	10.1	8.2	7.1	6.3
EV/EBIT (x)	11.1	9.3	8.1	7.2
ROCE (%)	30.9	29.9	32.0	33.5
ROE (%)	44.5	35.0	29.0	24.7
P/BV (x)	5.9	4.0	3.2	2.6
Net debt/EBITDA (x)	0.7	0.8	0.2	(0.3)
Net dividend	0.30	0.36	0.38	0.41
Yield (%)	1.2	1.6	1.7	1.8

Next event: Q2-07 results due on 3 August.



52-week range	USD16.31-USD26.657		
Free Float	USD1 0598m		
No. of shares, adjusted	1 180.5m		
Daily volume	USD157.60m		
Reuters/Bloomberg	TENR.MI/TEN IM		
Absolute perf.	1 month	3 months	12 months
	-5.7%	-6.6%	15.3%
Relative perf.	1 month	3 months	12 months
	-6.8%	-9.1%	-2.7%

Shareholders: Techint 60.2%, Management 0.2%, Free Float 39.6%

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► Tenaris

Company profile

Tenaris is the leading worldwide producer of seamless and welded pipes for OCTG applications (Oil Country Tubular Goods). It reported USD7.7bn of turnover and EUR1.9bn of net profit in 2006.

The company boasts 3.2m/tons of production capacity for seamless pipes and nearly 3m/tons of production capacity for welded pipes, of which 2m derive from the recent USD3.8bn acquisition of Maverick in the US.

From a strategic standpoint, Tenaris aims to consolidate its leadership in the OCTG market by investing in new products, thereby raising the weight of high value-added products. To pursue this goal, Tenaris announced the USD2.2bn acquisition of Hydril in the US last February, which made it the co-leading worldwide producer of premium joints (the junction of pipes). After these deals, its net debt should stand at USD2.8bn at year-end, corresponding to 0.7 debt/EBITDA and a 37% gearing.

Tenaris is owned by Techint, which holds a 60% stake (the holding company of the Rocca family). The stock is listed on the Buenos Aires, Mexico City, New York and Milan stock exchanges.

Investment case

We raise our rating to 2/Outperform and lift our target price from EUR17 to EUR19.4.

- After a sustained underperformance and weak Q1 results Tenaris now looks like a good buying opportunity, given the **strong OCTG industry fundamentals, driven by the rapid increase in drilling capacity.**
- **Tenaris has just expanded in the US market via Maverick and Hydril**, which could yield major benefits from H2-07. With these acquisitions, it has both enriched its product range and gained access to the largest OCTG market in the world.
- An additional catalyst could be the **upcoming review of US anti-dumping legislation**, which could ease the barriers for Latam and introduce constraints for Chinese imports. We estimate that a favourable ruling could lift our valuation by ~ EUR2.
- Although it recently invested USD5.3bn in external growth, **Tenaris still has the financial flexibility to expand further.** We estimate that it could invest >USD5bn in external growth, with the potential to enlarge its size by a further 20%.
- Our new target price points to 15% upside and is backed by affordable multiples: Tenaris still presents a significant discount vs. oil services peers and now a less evident premium vs. Vallourec.

Valuation

We are raising our target price for Tenaris from EUR17 to EUR19.4 based on our higher DCF valuation and still appealing multiples valuation.

DCF

We used a 8.3% average WACC and a 8.4x EV/EBITDA for our terminal value (in line with our current valuation). This delivers an equity value of USD30.9bn, which corresponds to **USD52.3 for ADR and EUR19.4 per share (at EUR/USD rate of 1.35)**. The sensitivity of the valuation to key business trends is the following: a 10% increase in raw material costs lifts our fair value by 13%, while a 10% annual decline in average tube prices over three years would lower our fair value to ~EUR14.

Multiples

On P/E, Tenaris is now nearly in line with Vallourec on 2007, but still more expensive in 2008 and based on EV/EBITDA, which we feel however is justified by the company's superior profitability and size. This valuation is still very appealing compared to other oil services stocks.

SWOT analysis

Strengths:

- 1 - World leadership in the OCTG market
- 2 - Production sites concentrated in low cost countries
- 3 - Healthy financial structure to carry out acquisitions
- 4 - Bright outlook for the OCTG market

Weakness:

- 1 - Exposure to weak North American market
- 2 - Stiff competition for low-end pipes

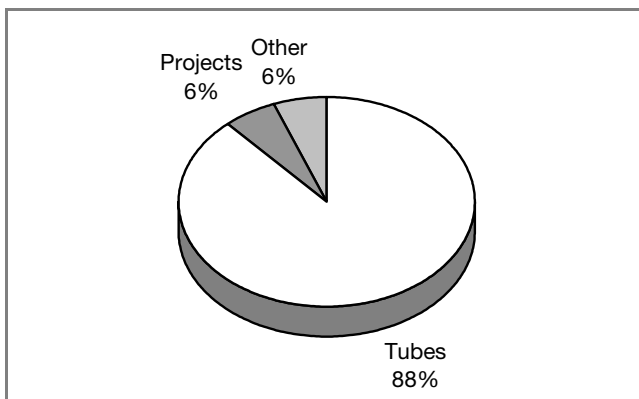
Opportunities:

- 1 - Integration of Hydril and Maverick
- 2 - Revision of US anti-dumping duties
- 3 - Further expansion in new markets (Eastern Europe?)

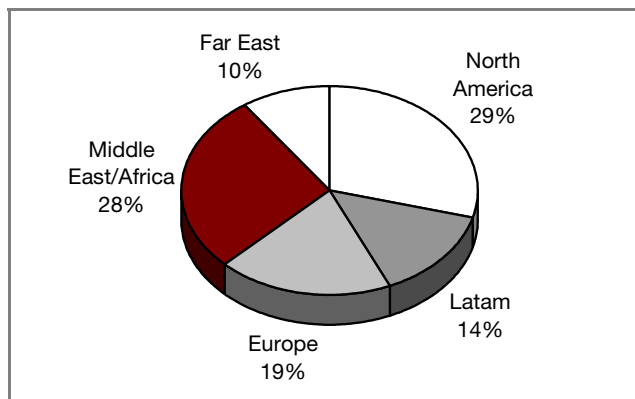
Threats:

- 1 - Low-cost Chinese imports in US market
- 2 - Rising production capacity in OCGT might affect prices
- 3 - Escalating raw material prices

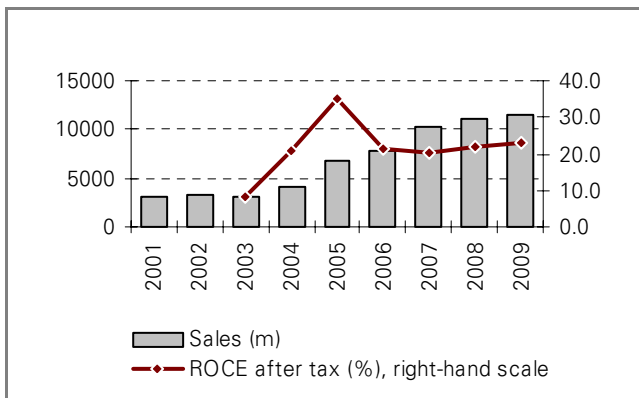
Sales by product (2006A)



Sales by area (2006A)



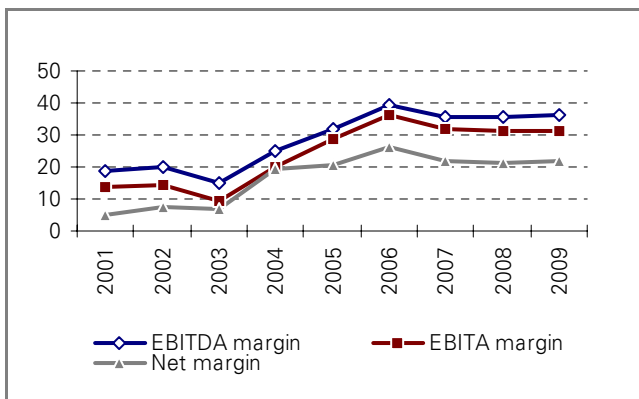
Sales & ROCE



DCF valuation

	Total	Per ADR (USD)	Per share (EUR)
DCF	7 812	13.2	4.9
Terminal value	26 513	44.9	16.6
Total	34 325	58.2	21.5
Debt	(2 095)	(3.5)	(1.3)
Financial assets	614	1.0	0.4
Equity value	32 844	55.6	20.6
After minorities	30 874	52.3	19.4

Margin/Trends (%)



SRI Issues

- 3 of the 9 current board members are independent. 5 to 15 directors can be appointed to the board, which is renewed every year.
- Tenaris has an audit committee, headed by 3 independent directors.
- Tenaris is involved in the transformation of steel products. Accidents totalled in 2006: 6 per million man hours (down from 12 in 2003).

Tenaris vs. Vallourec

16-May-07 (USD, EUR, %)	Curr.	Price	Mkt. Cap.	Mkt. Cap. EUR	Rating	Target Price	Ups.	P/E		Yield		Equity FCF		EV/EBITDA	
								07E	08E	07E	08E	07E	08E	07E	08E
TENARIS	USD	22.7	26 763	20 200	2	26.2	15%	12.7	11.8	1.6	1.7	6.4	8.3	8.2	7.2
VALLOUREC	EUR	225.2	11 944	11 944	2	255.0	13%	12.3	10.7	2.7	3.1	6.4	7.3	7.1	6.0
Weighted Average								12.5	11.4	2.0	2.2	6.4	7.9	7.8	6.7
Median								12.5	11.2	2.1	2.4	6.5	7.8	7.7	6.6

Source: Cheuvreux

INVESTMENT RECOMMENDATION

Following a sharp underperformance and weak Q1-07 results, we feel it is time to take a fresh look at Tenaris. Although results could be weak again next quarter due to the US market slowdown, we feel Tenaris is now an appealing investment opportunity, given the bright OCTG market outlook for H2-07, its outstanding market position after recent acquisitions and the potential amendment of US anti-dumping legislation. As a result, **we are raising our rating to 2/Outperform and set a new target price of EUR19.4 (or USD52.3 per ADR) from EUR17 (USD45.9 for ADR).**

- **Strong industry fundamentals.** Several indicators suggest that the demand for OCTG products will remain strong in the coming years: (1) drilling rigs continue to grow (+5.4% in Q1-07, but ~8% on an annualised basis), despite the sharp slowdown in the Canadian market; (2) worldwide drilling capacity is set to rise by 14% per year, with an even more pronounced increase (>+50%) in the more demanding deepwater rig segment; (3) the depletion of oilfields and fewer discoveries of new oil reserves should continue to boost investments. In this scenario, **we believe OCTG volumes will continue to rise (by 6-7% per year) and Tenaris should also benefit from the gradual rebalancing of its product mix in favour of high-end products.**
- **US expansion fills in the geographical gap for Tenaris and completes its product range.** The acquisitions of Maverick and Hydril marked Tenaris' entry in the OCTG market as a major local player. Although the timing of these deals coincided with a seasonal slowdown in the local market and a sharp increase in Chinese imports, which will continue to weigh on Q2-07 results, these deals offer a very sound strategic fit. (1) Tenaris has filled the market share gap vs. Vallourec-Sumitomo in the global premium joint segment, and it can now fully exploit the two major technologies in the field; (2) the Maverick acquisition allowed Tenaris to move into the welded OCTG pipe segment, which is less valuable than seamless, but might allow Tenaris to optimise production utilisation at the group level; (3) Maverick and Hydril's premium products are heavily undersold outside the US market; their inclusion in Tenaris' network should increase the commercial exposure of their products.
- **US anti-dumping review could be another catalyst at end-May.** Besides the close operational fit, Tenaris' arrival in the US market might help speed up the amendment of local anti-dumping regulations (more news due by the end of May). In particular, Tenaris might benefit from both a reduction of trade barriers for Latam countries (and Mexico in particular) and/or from the erection of barriers against rising Chinese imports (which now account for 15% of the market and even benefit from tax breaks). We calculated that the removal of the barriers against Mexican imports might generate USD61-128m of additional EBITDA, while a reduction in the flow of Chinese imports would be even more beneficial (EUR88-188m benefit). **These potential benefits** (currently excluded from our target price) **could be worth up to EUR1.6 per share in the best case scenario.**
- **Rich cash flow generation should pave the way for further expansion.** Despite the USD5.3bn investment for Maverick and Hydril, Tenaris' financial structure remains strong, with just USD2.8bn debt expected at end-2007 (0.7x debt/EBITDA). Based on a prospective 1.5-2x debt/EBITDA range, we estimate that Tenaris could spend a further USD5.3-7.3bn by end-2007 on acquisitions. In our view, the top priority is still expansion, which could enlarge its size by up to 20%. In addition, it will continue to upgrade production capacity for high-end products, for an estimated USD1.3-1.4bn of capital expenditure over the next 3 years. While still not a top priority, and though we do not expect any news before 2009, Tenaris might also offer a more generous pay-out to shareholders.
- **Excessive worldwide production capacity remains a risk, but brisk demand could well offset it and Tenaris is gradually moving out of the more dangerous market segments.** Thanks to its very clear strategy, targeting a mild volume increase and improvement in the price-mix, we believe Tenaris will gradually become less vulnerable to cyclical OCTG consumption trends. However, the rapid increase in Chinese production capacity for seamless pipes (and now at Arcelor-Mittal and its peer Vallourec) poses a risk for the entire industry. In our view, this increase in supply might well be offset by higher demand for volumes, implying that price stability is more likely than any significant change in trading conditions.
- **Appealing valuation reinforced by stronger leadership.** We now consider Tenaris' valuation more appealing than 6 months ago, as it has taken steps to reinforce its leadership in the market and has improved its financial structure. While the key value drivers are still pricing power and raw material costs, we are quite confident about our new target price of EUR19.4. In terms of multiples, the premium vs. Vallourec's multiples is now less evident, while the stock is still a very cheap way to play the rising momentum in the oil services sector.

I – VALUATION APPROACH

We upgrade our target price for Tenaris from EUR17 to EUR19 per share (corresponding to USD52.3 for ADR, from USD46), as we feel that the stock now factors in the weak performance expected for H1-07. In our valuation, we used a EUR/USD exchange rate of 1.35.

DCF valuation of EUR19.4 per share

Our DCF delivers a USD30.9bn fair value for Tenaris, after accounting for USD2bn of minorities, USD0.6bn of financial assets and USD2.1bn of debt (end 2006). In our valuation, the 2007-10 DCF accounts for USD7.8bn (or EUR4.9 per share), while the terminal value is USD26bn (EUR16.6). The terminal value corresponds to 77% of our EV and corresponds to a terminal EV/EBITDA of 8.4x (in line with the current stock multiple) and was calculated based on a 8.3% WACC and 1% terminal growth rate. All in all, our DCF model delivers a fair value of USD52.3 for ADR or EUR19.4 per share.

We raise our DCF valuation

Tenaris: DCF details					
(USD, %)	2006A	2007E	2008E	2009E	2010E
EBIT		3 252	3 487	3 625	3 766
Tax		(976)	(1 046)	(1 087)	(1 130)
Depreciation		430	489	539	569
Capex		(480)	(450)	(420)	(400)
WC Change		(382)	(87)	(42)	(41)
FCF		1 845	2 393	2 614	2 764
Discount	100%	108%	117%	127%	138%
WACC	8.3%	8.3%	8.3%	8.3%	8.3%

Source: Cheuvreux

Tenaris: DCF summary			
(USD)	Total	Per ADR (USD)	Per share (EUR)
DCF	7 812	13.2	4.9
Terminal value	26 513	44.9	16.6
Total	34 325	58.2	21.5
Debt	(2 095)	(3.5)	(1.3)
Financial assets	614	1.0	0.4
Equity value	32 844	55.6	20.6
After minorities	30 874	52.3	19.4

Source: Cheuvreux

We also performed a **sensitivity analysis** to test the impact of the key business drivers in various scenarios:

Sensitivity analysis of the key business drivers

- **Tube prices.** In a worst case scenario of a 10% yearly decline in price/mix for tubes for 3 consecutive years, the fair value would drop to EUR14, implying 18% downside vs. the current price. Alternatively, in a best case scenario of a 10% CAGR for 3 consecutive years, the improvement in the price-mix would take the DCF fair value up to EUR23 per share, ~20% above our valuation and 36% above the current price.
- **Raw material costs.** A 10% increase in raw material costs, on top of our 13% assumption for the next 3 years (or 4% annually), would imply a fair value for the shares of EUR16.6, basically in line with our current price, generating a 13% negative impact on our fair value.
- **Re-leveraging.** While we would rule out an active re-leveraging policy for Tenaris, we calculate that in the best case scenario, value creation could total EUR2 per share or 10% of our current target price.

Multiples are still appealing

Tenaris still trades at quite cheap multiples, compared to oil services peers and at a premium to its key peer Vallourec. However, now the multiples are much more appealing than they were 4 months ago, as Tenaris has made significant progress, with 2 new acquisitions, which have raised its profile and visibility for the coming years.

Lower premium to Vallourec...

- In a direct comparison with Vallourec, it is clear that Tenaris is currently trading at a very similar P/E (while it traded at a 20% premium last July, when we published our last report) and FCF yield for 2007, while it becomes 10-15% more expensive on 2008 P/E and based on EV/EBITDA. We would underline that Tenaris traded at almost a 40% premium to Vallourec just 4 months ago and we would argue that now, it should trade at a premium on the back of its larger size (EUR2.8bn EBITDA vs. EUR2bn for Vallourec in 2007) and higher profitability (36% vs. 30%). On the other hand, Vallourec can factor in speculative appeal stemming from its fragmented shareholder structure, unlike Tenaris (which is controlled by a very committed majority shareholder).

Tenaris vs. Vallourec

16-May-07 (USD, EUR, %)	Curr.	Price	Mkt. Cap.	Mkt. Cap. EUR	Rating	Target		P/E		Yield		Equity FCF		EV/EBITDA	
						Price	Ups.	07E	08E	07E	08E	07E	08E	07E	08E
TENARIS	USD	22.7	26 763	20 200	2	26.2	15%	12.7	11.8	1.6	1.7	6.4	8.3	8.2	7.2
VALLOUREC	EUR	225.2	11 944	11 944	2	255.0	13%	12.3	10.7	2.7	3.1	6.4	7.3	7.1	6.0
Weighted Average								12.5	11.4	2.0	2.2	6.4	7.9	7.8	6.7
Median								12.5	11.2	2.1	2.4	6.5	7.8	7.7	6.6

Source: Cheuvreux

Lower discount to oil services...

- Tenaris still looks quite attractive compared to the other oil services companies. The P/E is 25-30% cheaper and the FCF yield is superior. On EV multiples, the gap has narrowed to ~10% from 30% last July.

Tenaris vs. European oil services sector

16-May-07 (USD, EUR, %)	Curr.	Price	Mkt. Cap.	Mkt. Cap. EUR	Rating	Target		P/E		Yield		Equity FCF		EV/EBITDA	
						Price	Ups.	07E	08E	07E	08E	07E	08E	07E	08E
CGGVERITAS	EUR	163.5	4 446	4 446	1	200.0	22%	15.6	11.2	0.0	0.0	3.9	11.1	5.3	4.5
PGS	USD	24.7	4 325	3 265	2	28.1	14%	10.1	7.9	0.0	0.0	6.2	11.0	4.9	3.7
FUGRO	EUR	42.1	2 957	2 957	2	47.0	12%	16.5	13.9	2.5	3.0	(1.3)	2.7	9.6	8.2
SAIPEM	EUR	23.1	10 201	10 201	1	26.5	15%	20.5	17.1	1.6	2.0	(4.9)	(1.1)	11.2	9.8
SBM OFFSHORE	USD	35.4	4 961	3 744	1	36.0	2%	19.1	18.0	2.6	2.8	(3.6)	3.0	11.1	10.9
TECHNIP	EUR	55.9	5 969	5 969	3	53.0	-5%	22.0	18.1	2.2	2.5	(2.2)	(0.9)	8.2	7.6
Weighted Average								18.4	15.2	1.5	1.8	(1.4)	2.9	8.9	7.9
Median								17.8	15.5	1.9	2.2	(1.7)	2.9	8.9	7.9
TENARIS	USD	22.7	26 763	20 200	2	26.2	15%	12.7	11.8	1.6	1.7	6.4	8.3	8.2	7.2

Source: Cheuvreux

II – WHAT IS THE NEXT STEP?

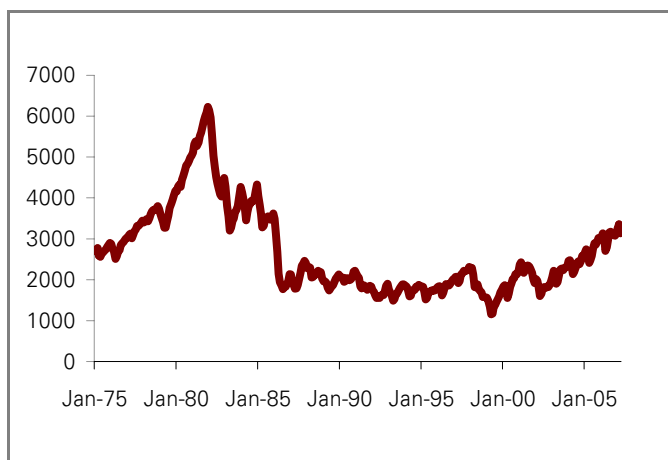
Industry fundamentals remain positive

The seamless pipes for the oil industry segment (called OCTG), representing the majority of Tenaris' total revenues, should be supported by the increase in worldwide drilling activities, as both the current data and the expected trends demonstrate.

Growth of rigs still looks positive at the global level

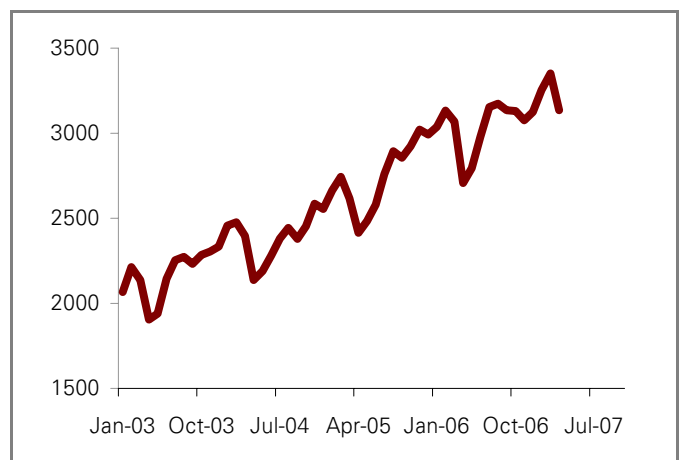
- In Q1-07, rigs grew by 5.4% vs. Q1-06, while the growth rate is in the region of 8% on an annualised basis. This sound performance was achieved in spite of the less exciting performance of the North American market, which represents ~65% of all world rigs. In Canada, rigs were down by ~20% in Q1-07, due to the poor gas season (-12% on an annual basis).

Worldwide rig count: Long term trend



Source: Baker Hughes

Worldwide rig count : Short term trend

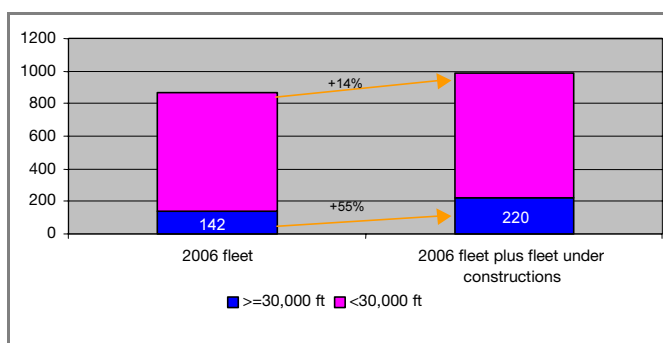


Source: Baker Hughes

Drilling activity set to continue to grow

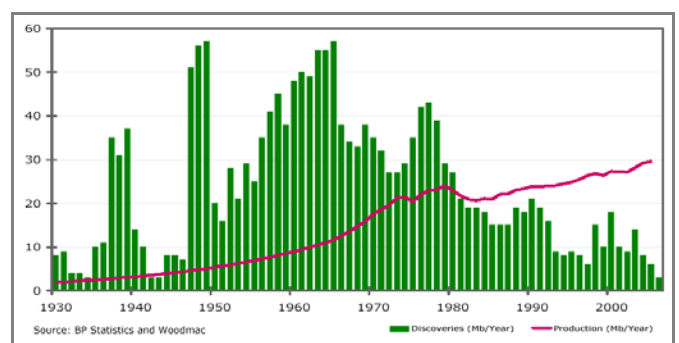
- The drilling activity should remain at quite a high level in the coming years, supported by rising drilling capacity (a 14% increase in offshore drilling capacity is currently under construction, of which the deepwater segment is expected to grow by 55%) and by the gap between production of oil and new discoveries.

Expansion of global offshore drilling fleet



Source: Tenaris, Riglogix

Production vs. discoveries of oil & gas



Source: BP Statistics and Woodmac

New projects require more complex products

- These positive sector trends should **boost both the volumes and mix for pipe producers**, due to the depletion of oil wells (as drilling activities must be increased to sustain production levels for the well), the increasing complexity of new oil fields (requiring more advanced products and higher volumes, due to the more challenging terrain and deeper discoveries). (1) Baker-Hughes estimates that directional and horizontal wells (which are more demanding in terms of pipe requirements) are growing steadily and now represent ~40% of the total wells in the US vs. 30% ten years ago. (2) Tenaris provides the bulk of the high-end pipes required to operate the complex new wells (i.e. directional deep wells, which rely on 70-100% of high-end products).

Pipe and quality requirements for some projects supplied by Tenaris

Type	Location	Pipe volumes	High end weight	Special grades
Shallow well	Land	100	0%	0%
Directional deep well	Land	1 350	70%	80%
Directional deep well	Offshore shallow water	700	100%	50%
Deep well	Offshore deep water	700	70%	30%

Source: Tenaris

More pipes required also in the coming years

Looking at the global picture, we estimate that in the coming years, the expected increase in the consumption of OCTG products could well exceed the increase in worldwide drilling activities required to keep production flat and offset the depletion of old oil fields. This trend has already been evident for the last few years: Tenaris estimates that in North America, the consumption of pipes doubled over the last 4 years vs. the ~60% increase in wells needed to keep oil production stable.

Given these fundamental trends, we believe that the OCTG market could continue to grow at a rate of 6-7% over the next 3-4 years in terms of volumes, moving from the current level of 8.6m/tons to over 10m/tons over the next 3-4 years.

Tenaris: improving mix and expansion in US market

In this environment of strong, sustainable growth, Tenaris has decided to invest heavily in expansion, in an attempt to preserve the profitability of the OCTG segment. Its strategy is based on two key drivers.

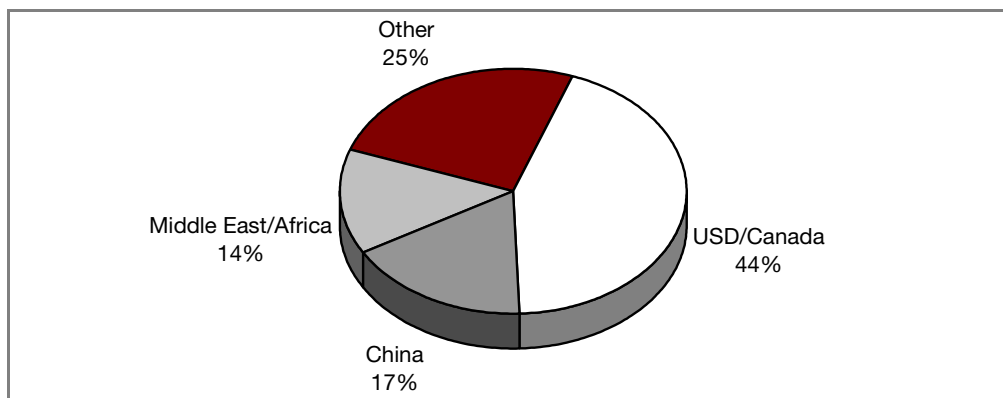
Entering the US market...

- In the last year, the company made two acquisitions: it bought Maverick for USD3.1bn in July 2006 and then took over Hydril for USD2.2bn last February. This **USD5.3bn investment allowed Tenaris to enter the US market** as a local player: Maverick is one of the biggest operators in the OCTG welded pipes business, while Hydril is a leading producer of premium joints. The integration of these companies will be a key profitability driver for the next 2-3 years.

...and still betting on mix improvement

- In terms of production and capacity, **Tenaris still does not plan to increase its capacity, despite rising volumes in the industry**. Instead, it plans to specialize in high-end products, which sell for higher average prices, offer better margins and benefit from lower competition. Its key competitor, Vallourec, plans to take the same strategic route, although it just announced that it has invested in a new plant in Brazil.

OCTG market breakdown (2006)



Source: Tenaris

Entering the OCTG market on a much larger scale

US expansion: long term benefits, short term risks

Expansion in the US market was a crucial move for Tenaris as it opened up a huge market (>4m tons with Canada representing 44% of the total OCGT market), which had not been accessible previously, due to anti-dumping regulations. The acquisition of Maverick tubes has some drawbacks: namely, the production of welded pipes offers lower added value and this segment is more heavily exposed to competition from low-cost countries. Secondly, the timing of the acquisition coincided with a slowdown in the construction of gas rigs in Canada.

Maverick forecasts

(USD m, %)	2006E*	2007E	2008E	2009E	2010E
Revenues	538	1 950	2 300	2 450	2 500
EBITDA	119	372	474	541	577
Margin (%)	22.1%	19.1%	20.6%	22.1%	23.1%
EBIT	108	332	427	491	526
Margin (%)	20.0%	17.0%	18.5%	20.0%	21.0%

* consolidated for 3 months

Source: Cheuvreux

Hidden benefits of the acquisitions

We believe that Maverick and Hydril offer Tenaris several important advantages: (1) **technology**: with these acquisitions, Tenaris gains access to coiled tubes and gains know-how for the production of premium joints; (2) **market leadership**, as Tenaris replicates its leading position at the global level in the most important market; (3) **commercial synergies**, as we believe that both Maverick and Hydril's product range might benefit from being integrated into Tenaris' commercial structure; (4) **better utilisation of production capacity**, as the spare Maverick capacity could be used to supply some basic pipes now supplied by seamless plants; (5) **more effective negotiating power with US authorities**, which could allow it to alleviate the impact of the anti-dumping measures in Mexico (and maybe push to have some barriers erected against Chinese imports).

Technology: coiled tubes and premium connections

From a technological standpoint: (1) the **Maverick acquisition brought coiled tubes technology to Tenaris** and gave it world leadership in the segment. These products are being used more and more in the wells in order to maintain production levels (i.e. they are used specifically to limit depletion). Coiled line pipes are also used for deep sea applications. (2) The acquisition of Hydril allowed **Tenaris to move from the number two position in premium joints to co-leadership, with 37% market share worldwide**. With Hydril, Tenaris is now able to supply both coupled joints (Tenaris Blue) and integral joints (Hydril).

Hydril forecasts

(USD m, %)	2006A	2007E*	2008E	2009E	2010E
Revenues	503	400	700	770	793
G Profit	203.3	148	259	285	293
Margin (%)	40.4%	37.0%	38.0%	39.0%	39.0%
EBITDA	147	107	202	237	252
Margin (%)	29.2%	26.8%	28.8%	30.8%	31.8%
EBIT	132.2	95	181	215	229
Margin (%)	26.3%	23.9%	25.9%	27.9%	28.9%

* consolidated from 7 May 2007

Source: Cheuvreux

20% market share and 20% of consolidated EBITDA

The combination of Maverick and Hydril should give Tenaris a more powerful position in the market. When both companies are integrated into Tenaris' P&L (2008E), the US subsidiaries will account for 23% of consolidated sales and for 13% of consolidated EBITDA. The market share of the new group in the US OCTG market is now 20%, meaning that Tenaris is now one of the biggest local operators. Our forecasts for the two companies currently factor in a minor benefit from cost synergies (more evident for Hydril than for Maverick) and a slightly more bullish stance on revenue growth (USD3.3bn vs. USD3.1bn otherwise in 2010), thanks to commercial synergies.

Tenaris: P&L contribution of US subsidiaries

(USD, %)	2006E	2007E	2008E	2009E	2010E
Revenues	538	2 350	3 000	3 220	3 293
% of consolidated	7%	23%	27%	28%	28%
EBITDA	119	480	675	778	830
Margin (%)	22.1%	20.4%	22.5%	24.2%	25.2%
Consolidated margin (%)	39.4%	35.9%	35.7%	36.0%	36.2%
% of consolidated EBITDA	4%	13%	17%	19%	19%

Source: Cheuvreux

Anti-trust decisions could provide upside

Opportunity: revision of anti-dumping regulations

Its new status as a local operator should provide Tenaris with more negotiating power with the US authorities over anti-dumping legislation. The current situation is a sort of worst case scenario for Tenaris, as it is facing heavy penalties for exports from its Mexican and Argentine plants to the US. On the other hand, the US has placed no limitations on exports from China, which has rapidly become the main exporter of OCTG products to the US, representing roughly 15% of the total market. In the coming months, we expect anti-dumping regulations to be amended. Any measures taken to change the status quo would be an advantage for Tenaris:

- If a ban on Chinese exports is introduced, Maverick would greatly benefit, given the quantity of basic welded products that it sells.
- We also feel that the trade barriers against Mexico could be removed. This would sharply increase Tenaris' growth potential in the US market, which is currently served only by the (low-capacity) plant in Canada.

US anti-dumping measures applied to OCTG products

Exporting country	To	Antidumping decision	Start date	Type
Mexico	USA	USA-AD-716	28/06/1995	Ad valorem duty
Argentina	USA	USA-AD-711	28/06/1995	Ad valorem duty
Italy	USA	USA-AD-713	28/06/1995	Ad valorem duty

Source: Cheuvreux

While it is difficult to gauge the final impact, we attempted to simulate the effects of a potential amendment of current regulations.

Chinese imports could be limited

- **Increased anti-dumping penalties for Chinese producers.** This move would basically raise the utilisation of production capacity at Maverick plants, which we estimate currently stands at ~70%. Assuming that anti-dumping duties cut Chinese imports in half, other players' production would likely to rise by 10%, which would imply ~USD88m of additional EBITDA for Tenaris (+1.4% at the consolidated level). In a best case scenario (no more Chinese imports), we estimate that the benefit could reach ~USD188m, lifting Tenaris EBITDA by +3%.

Tenaris: Potential benefit from the introduction of duties for China

(USD, %)	Base case	Best case
Additional sales for Maverick vs. our current Maverick forecasts	250 11%	470 20%
Additional EBITDA	88	188
<i>Margin (%)</i>	35%	40%

Source: Cheuvreux

Duties against Mexico could be waived

- **Waiver of anti-dumping penalties for Mexican operators.** This decision would be a major step forward for Tenaris. The company currently supplies the US market from the Algoma plant in Canada; however, the product range is incomplete, due to the low capacity of the plant (250k tons) and the lack of a complete pipe range. Being allowed to export from Mexico, would be a major step forward for Tenaris in terms of both of production planning and commercial penetration. The financial benefit is harder to quantify: we assumed a 5% increase in US sales as a base case, and a 10% increase in the best case scenario. We also assume that as it would mainly be high-end production, margins might be in the region of 40%, implying EUR61m of additional EBITDA in the base case and EUR128m in the best case scenario.

Tenaris: Potential benefits from the cancellation of duties for Mexico

(USD, %)	Base case	Best case
US sales (2008E)	3 050	
Additional high end sales	5%	10%
Additional sales	153	305
Additional EBITDA	61	128
<i>Margin (%)</i>	40%	42%

Source: Cheuvreux

USD1 per share of additional value if resolutions are adopted

Our simulation indicates that if both measures are adopted and in the best case scenario **the benefit for Tenaris would be in the region of USD316m additional EBITDA on a yearly basis.** If just one measure were adopted, it might be in the USD60-90m range. Applying a multiple of 8x to the additional EBITDA (in line with the company's current multiple), we estimate that the potential upside for Tenaris could range from USD0.40 per share to USD2.14 per share in the best case scenario.

Tenaris: Value per share of change of anti-dumping measures at 8x EV/EBITDA

(USD)	Base case	Best case
China duties	0.59	1.27
Mexico duties	0.41	0.87
Total	1.00	2.14

Source: Cheuvreux

Significant scope for new investments

Next step...

Despite a USD5bn investment in the US over the last 12 months, Tenaris still has the necessary financial flexibility to make further acquisitions: the debt/EBITDA ratio should not exceed 0.7x in 2007 and the company might revert to a net cash position in mid-2009, assuming the current 20% dividend pay-out policy is maintained. For this reason, we believe that Tenaris could have USD2.8bn of excess cash available, assuming 1.5 debt/EBITDA or USD4.7bn, with a 2x ratio for potential investments. In 2008, the excess cash range should grow to USD5.3-7.3bn (USD0.7bn less, after factoring in a more generous 50% dividend policy).

Tenaris: Potential for new investments

(USD)	2006A	2007E	2008E	2009E	2010E
Debt	(2 095)	(2 790)	(858)	1 305	3 648
EBITDA	3 047	3 776	4 078	4 275	4 455
Debt/EBITDA	0.7	0.7	0.2	neg.	neg.
Scenario 1					
Debt/EBITDA	1.5	1.5	1.5	1.5	1.5
Excess cash	2 475	2 874	5 259	7 718	10 331
Scenario 2					
Debt/EBITDA	2.0	2.0	2.0	2.0	2.0
Excess cash	3 999	4 762	7 297	9 855	12 558

Source: Cheuvreux

The market is consolidating very rapidly

Although Tenaris has been very quick to exploit growth opportunities in the US with Maverick and Hydril, **M&A activity in the OCTG sector has been brisk**, meaning there could be less room for further expansion in the North American market. US Steel recently took over Lone Star and SSAB has just launched a takeover bid on IPSCO (which in turn took over the NS Group). Based on these trends, we see less room for additional growth in the North American market, as all significant players have been taken over. **Tenaris has 3 alternative investment options for its excess cash: (1) return cash to shareholder; (2) invest further to upgrade production capacity for high-end products; (3) further acquisitions.** Of these three options, we believe Tenaris is most likely to pursue the second in the short term, although it will not heavily affect free cash flow. The first option cannot be considered before 2009 and the third will definitely be a key driver for the coming years.

Tenaris: Potential yield in different pay-out scenarios

(USD, %)	2006A	2007E	2008E	2009E
Current dividend forecasts				
DPS (USD)	0.30	0.36	0.38	0.41
Dividend payout	18%	20%	20%	20%
Dividend/FCF	26%	24%	19%	18%
Dividend yield (%)	1.4%	1.6%	1.7%	1.8%
Scenario 1 - 50% pay-out				
DPS (USD)	0.30	0.89	0.96	1.01
Dividend payout	18%	50%	50%	50%
Dividend/FCF	26%	59%	48%	46%
Dividend yield (%)	1.4%	4.1%	4.4%	4.6%
Scenario 2 - 50% pay-out 2007, 100% from 2008				
DPS (USD)	0.30	0.89	1.92	2.03
Dividend payout	18%	50%	100%	100%
Dividend/FCF	26%	59%	97%	92%
Dividend yield (%)	1.4%	4.1%	8.7%	9.2%

Source: Cheuvreux

Tenaris is unlikely to return cash to shareholders in the short term

Migration towards year-end is set to continue

Russia and China are still important markets where Tenaris still has no direct presence

New acquisitions are riskier

Return cash to shareholders. This option is a clear "worst case scenario" for the majority shareholder, which has demonstrated its commitment to growth, with the two acquisitions in the US, when pressure from minority shareholders to distribute excess cash was quite strong. However, Tenaris could commit to distributing the net cash (not the excess cash), if no deal is signed. For this reason, we believe that the current ~1.5-2% dividend yield is unlikely to be upgraded significantly (equity FCF yield at 7-9%), at least before 2009. However, we assume that if an aggressive dividend policy is adopted in 2009, the yield could top 8%.

Further investments in production capacity. Tenaris has also ruled out investing in new capacity. All of the organic growth is expected to stem from high-end products, implying USD0.4-0.5bn max. capex per year to raise the plants' finishing capabilities.

New acquisitions. We feel that this is the most likely scenario for Tenaris for the next 2-3 years. While Tenaris holds a very prominent position in the industry (20%) and has a global footprint, there are still major markets that could be appealing going forward, such as Russia and China. We believe that Tenaris can leverage on its know-how to significantly upgrade any industrial asset it might buy. We estimate that given the excess cash range and a 7-10x EV/EBITDA price tag for an acquisition, Tenaris might buy new assets for ~13% of its current EBITDA by year-end and ~19% by end-2008.

Tenaris: Further expansion via acquisitions

(USD, %)	2007E	2008E	2009E	2010E
Excess cash min.	2 874	5 259	7 718	10 331
Excess cash max.	4 762	7 297	9 855	12 558
EV/EBITDA min	7.0	7.0	7.0	7.0
EV/EBITDA max	10.0	10.0	10.0	10.0
Potential new EBITDA min	287	526	772	1033
Potential new EBITDA max	680	1042	1408	1794
Average	484	784	1090	1414
% On current forecast	13%	19%	25%	32%

Source: Cheuvreux

What are key drawbacks for further expansion? We see two key risks. First, the following factors must be taken into account in riskier countries from a political and regulatory viewpoint. Russia is clearly an interesting market in which to establish a local presence (cheap raw materials, significant commercial opportunities), but it is a hard market to penetrate and manage. The same is true for China. Second, the next acquisitions could be much more expensive. Tenaris purchased Hydril at full price (>10x EV/EBITDA), although this was justified by the company's know-how, the potential to expand its franchise and its complementary product range.

What are the risks? Supply side and take-over prices

We believe that Tenaris faces 3 key risks: (1) it has invested heavily in the US market, where OCTG volumes have slowed down (though this is probably only a short term trend); (2) given its acquisitive mood over the past year and the potential to further expand the franchise, there is the risk that Tenaris might pay too much for new assets; (3) there is the risk of oversupply in the OCTG sector, after years of strong demand, which has sharply inflated prices.

US risk: just a short term issue

If it overpays, how much value destruction could be expected

Oversupply is the real issue

Tenaris considers the US market slowdown to be a short term setback rather than a structural problem. If supported by a change in anti-dumping regulations, as we discussed earlier in the report, the US market could be a fantastic growth opportunity for Tenaris, as it has now achieved critical mass (USD3bn sales expected in 2008, with 100% of acquisitions consolidated). The slowdown over the last few months, which does not seem likely to pick up before H2-07, raises some concerns about the timing and the price paid for the acquisition. However, we think that this was the price that Tenaris had to pay to enter the US market.

The risk of overpaying for acquisitions is much more serious in our view. Based on our estimate of the potential price Tenaris could afford to pay in 2007 (USD2.8-4.7bn range) and assuming it "overpaid" by 20% for an acquisition, we estimate that value destruction would amount to 2-3% of its market cap. Based on the USD5.3-7.3bn it could afford in 2008, if it paid a 20% premium, value destruction could reach 4-5%. As Tenaris has consistently been able to successfully integrate acquisitions and create value, we would not be surprised if the market did not react too negatively to an "expensive acquisition", providing it had strong strategic rationale.

Worldwide OCTG market volumes were estimated at 8.6m tons in 2006, up sharply from ~7.6m tons in 2005. This represents ~30% of the total seamless pipes market, which reached 30m tons last year (up from the 25m tons reportedly consumed in 2005). For several years, production capacity did not increase (tied to the poor prices in 2002-03). Now, new players are entering the sector and it seems that the very tight market conditions (which pushed prices from USD1,000/ton to >USD2,000/ton) are changing. Vallourec has finally decided to build a new 0.6m ton seamless pipe plant in Brazil, for an investment of USD1.6bn. In Saudi Arabia, Mittal is planning to open a 0.5m ton factory for seamless pipes. Chinese production has risen sharply over the last few years, with higher exports to the US (where China faces no export bans). It now controls an estimated 15% share of the market.

New production capacity

Country	Company	Partners	Production Capacity (kt/y)	Start up of op.	Current status	Comment
China (Tianjin)	Tianjin Pipe Co	None	500	2007	Construction phase	Expansion
China (Hunan)	Hengyang Stell Tube Co	None	200	2007	Construction phase	Expansion
China (Shanxi)	Changzhi I&S (Group)	None	110	2007	Construction phase	Expansion
China (Shandong)	Anshan Seamless Steel Pipe	None	200	2008	Construction phase	Expansion
Saudi Arabia	Al Tuwairqi	na	750	2008	Early planning phase	New mill
Saudi Arabia	TAQA	Local investors	400	2009	Facilities ordered	New mill
Saudi Arabia	Arcelor Mittal	Technical alliances	500	2010	Planning phase	New mill
Russia	Pervouralsk	None	ns	2010	Planning phase	Expansion
China (Liaoning)	Shandong Shouguang Juneng	Shengli Oilfield	300	na	Construction phase	New mill
China (Jiangsu)	Wuxi Seamless Pipe Corp	None	250	na	Construction phase	Expansion
Brazil	Vallourec / Sumitomo		600	mid-2010	Planning phase	New mill
Saudi Arabia	Zamil	na	ns	Pending	Early planning phase	New mill
UAE	Tianjin Pipe Co	Local investors	ns	Pending	Early planning phase	New mill
UAE	TMK Volzhsky	Under consideration	ns	Pending	Early planning phase	New mill
UAE	Boulder	na	ns	Pending	Early planning phase	New mill
Oman	Shadeed	Jindal Saw Pipe	1 000	Pending	Early planning phase	New mill
China (Shandong)	Lubao Steel Tube Corp	Shanghai BAOSTEEL Group	500	Pending	Early planning phase	Expansion
UAE	Wuxi Seamless Pipe Corp	na	1 000	Pending	Indefinite delay	New mill
Total capacity expansion			6 310			

Source: Cheuvreux

Excessive supply would only be an issue, if demand does not rise...

It is hard to get a clear picture of the market at the moment. However, we assume that the capacity could rise by 5-6% per year over the coming years. This additional capacity would imply a potential ~20% increase in supply over the next 3-4 years. Assuming that demand grows by 6-7% per year, **this additional capacity could be matched by higher demand in 4 years according to our estimates, implying that the market would remain balanced.** Tenaris' overall exposure to low-end volumes (2.7-2.8m tons out of 4m tons production) will decline, due to its investments to raise high-end production capacity. For this reason, while there is undoubtedly a risk, **we are not factoring in any price erosion into our 2007-10 forecasts.**

III – NEW ESTIMATES

33% growth this year, 8% next year

We have just revised our forecasts to include Hydril, which was consolidated on 7 May and to factor in the lower than expected Q1-07 results. We expect Tenaris to report ~33% revenue growth in 2007, thanks to the wider consolidation perimeter; however, at the EBITDA and EBIT levels, this increase will be less evident, as the new acquisitions are less profitable than the rest of the business. We expect EBITDA and EBIT to grow by ~20%. Finally, for 2007 our net profit estimate is set to increase by 9%, burdened by higher financial charges (higher net debt). In 2008, Tenaris will enjoy a further benefit from the acquisition of Hydril in the first 4 months; we expect 7-8% growth for all the P&L lines, while for the following 2 years, we project 3.5-4% organic growth, consistent with the level adopted for 2007-08 organic business.

Tenaris: Summary of 2007-09 forecasts

FY to 31/12 (USD m, %)	2003A	2004A	2005A	2006A	% Chg.	2007E	% Chg.	2008E	% Chg.	2009E	% Chg.	CAGR
Sales	3 180	4 135	6 736	7 727	14.7%	10 272	32.9%	11 140	8.4%	11 559	3.8%	14.4%
EBITDA	488	1 021	2 162	3 047	40.9%	3 682	20.9%	3 976	8.0%	4 164	4.7%	11.0%
EBIT	288	814	1 948	2 792	43.3%	3 252	16.5%	3 487	7.2%	3 625	3.9%	9.1%
Pre-tax profit	286	1 025	1 956	2 882	47.3%	3 252	12.9%	3 487	7.2%	3 680	5.5%	8.5%
Net profit	210	785	1 278	1 945	52.2%	2 113	8.7%	2 265	7.2%	2 391	5.5%	7.1%
Cash Flow	383	719	1 729	2 280	31.9%	2 658	16.6%	2 878	8.3%	3 060	6.3%	10.3%
Net debt	448	948		2 095		2 793		864		(1 293)		

Source: Cheuvreux

Quick de-leveraging

From a financial standpoint, we now expect USD2.9bn of net debt at end-2007, after USD0.5bn of capex and the USD0.4bn dividend pay-out. We expect Tenaris to de-leverage quite rapidly, moving to less than USD1bn of debt by end-2008 and reverting to a net cash position by H1-09.

Revenues: organic growth still above 5% for 2 years

Over 5% organic growth for 2007

Our sales forecasts are heavily affected by the acquisitions, which will continue to affect Tenaris until April 2008. In order to better display our underlying assumptions, we split the two components of growth into organic and external growth: we still expect 5.6% organic growth in 2007 and 5% in 2008, before moving towards the 3.5-4% range afterwards. In terms of external growth, we expect Maverick and Hydril to provide 27% growth in 2007 (mostly concentrated in Q2 and Q3, when both companies will contribute) and 3-4% in 2008 (represented by the contribution of Hydril in the first 4 months of 2008).

Tenaris: Sales forecasts

(USD, %)	2006A	2007E	2008E	2009E	2010E
Sales	7 727	10 272	11 140	11 559	11 969
% Change		33%	8%	4%	4%
Organic growth (and currencies)		5.6%	5.0%	3.8%	3.5%
External growth		27.3%	3.4%	0.0%	0.0%

Source: Cheuvreux

Price/volumes drivers

We also provided a more detailed breakdown of the tubes division, which makes up nearly 90% of sales. The contribution of welded pipes could rise in 2007 from 300k tons to over 1m tons, basically thanks to Maverick, while expect a 4% increase in seamless, driven by Hydril (although we are still missing some details about the volumes-mix split of the newly-acquired company). In terms of the price-mix, we anticipate a 2.5% positive impact in 2007, which seems rather cautious, given the +7% reported in Q1. For 2008-09, we are looking for a 2-2.5% volume growth (in organic terms) and a 3-4% increase in prices, basically driven by the mix (of which 1-2% should be attributable to the consolidation of Hydril).

Tubes division: Price and volume drivers

(USD, %)	2006A	2007E	2008E	2009E
Tubes sales	6 824	8 948	9 646	10 171
Seamless volumes	2 919	3 036	3 165	3 244
% Change		4.0%	4.2%	2.5%
Welded volumes	297	1 080	1 102	1 124
% Change		263%	2%	2%
Tubes price/mix	2 122	2 174	2 261	2 329
% Change		2.5%	4.0%	3.0%

Source: Cheuvreux

Rising raw material costs imply flattish margins**Margins could deteriorate a bit going forward**

We believe that one of the biggest drivers of Tenaris' past performance is over: while margins are now at a very high level, our forecasts now factor in: (1) an increase in raw materials costs (from 40% of sales to ~42%), partly due to the consolidation of Maverick; (2) quicker escalation of personnel costs, following the renegotiation of labour contracts in Argentina and Mexico. As a result, we estimate that the gross margin will move from 50% of 2006 to 46-47%, with the bulk of this decline in 2007, driven by the consolidation of Marverick.

Tenaris: Gross profit and raw material costs

(USD, %)	2006A	2007E	2008E	2009E
Gross profit	3 843	4 826	5 184	5 370
Margin (%)	49.7%	47.0%	46.5%	46.5%
Tubes	3 617	4 467	4 753	5 002
Projects	127	236	291	224
Other	99	123	140	144
Margin tubes (%)	53.0%	49.9%	49.3%	49.2%
Raw material/sales	40.3%	41.1%	41.6%	41.6%

Source: Cheuvreux

Margin dilution, but double digit growth ahead

In terms of the EBITDA and EBIT margins, we expect to see dilution in 2007, followed by stabilisation and a slight recovery in 2008 and in the following years. As we already explained for the gross margin, the key reason for this dilution is the consolidation of Maverick and Hydril, which have lower margins than Tenaris (22% for Maverick and 29% for Hydril vs. Tenaris' stand-alone level of 38-39%). For this reason, we expect the EBITDA margin to stabilize at ~35.5-36% (35.4% reported in Q1-07, when Maverick was already consolidated) for the next 2-3 years. **In terms of EBITDA CAGR, our current forecast is for a 10-11% increase in 2006-09, with a more pronounced trend (+21%) in 2007 (+31% in Q1-07).**

Tenaris: EBITDA and EBIT margins

(USD, %)	2006A	2007E	2008E	2009E	2010E
EBITDA	3 047	3 682	3 976	4 164	4 335
Margin (%)	39.4%	35.9%	35.7%	36.0%	36.2%
EBIT	2 792	3 252	3 487	3 625	3 766
Margin (%)	36.1%	31.7%	31.3%	31.4%	31.5%
Tubes	2 670	3 092	3 280	3 469	3 612
Projects	56	124	166	113	109
Other	66	37	42	43	44
Margin tubes (%)	39.1%	34.6%	34.0%	34.1%	34.2%
Weight tubes (%)	96%	95%	94%	96%	96%

Source: Cheuvreux

7% net profit CAGR in 2006-09

Net profit CAGR should be lower, due to the combined impact of financial charges and the tax rate. We estimate a ~31-32% tax rate for the coming years, vs. <30% in the past. In addition, the Maverick and Hydril acquisitions should lead to higher financial charges for Tenaris compared to past years (we expect >USD100m in 2007 and ~USD100m in 2008). All in all, we foresee a **7% net profit CAGR in 2006-09**.

Tenaris: Net profit trend

(USD, %)	2006A	2007E	2008E	2009E	2010E
Net profit	1 945	2 113	2 265	2 391	2 505
Tax rate	30.2%	31.5%	31.5%	31.5%	32.0%

Source: Cheuvreux

Net debt of USD2.8bn in 2007, back to cash by 2009**Debt-free again by mid-2009**

Our cash flow forecasts point to USD2.8bn of debt in 2007, up from USD2.8bn in 2006 on the back of the investment to take over Hydril. However, the group's financial structure still looks very sound, with a 37% gearing and a debt/EBITDA ratio in the region of 0.8x. In addition, in the absence of any significant acquisitions or change in the dividend policy, we expect that Tenaris to be debt-free in mid-2009, to achieve >USD1bn net cash by end-2009. In other words, while Tenaris has carried out two large acquisitions over the last months, its financial muscle is still largely intact and, if necessary it could continue its expansion plan via acquisitions.

Tenaris: Net debt forecasts

FY to 31/12 (USD m)	2003A	2004A	2005A	2006A	2007E	2008E	2009E
Net debt	447.7	947.7	183.0	2 095.0	2 792.9	863.5	(1 293.1)
Equity	1 841.0	1 841.0	3 507.8	5 338.0	7 096.8	8 939.7	10 877.1
Minorities	120.0	120.0	268.1	363.0	482.6	607.9	739.7
Gearing (%)	22.8	48.3	4.8	36.7	36.8	9.0	(11.1)
Net debt/EBITDA	0.9	0.9	0.1	0.7	0.8	0.2	(0.3)

Source: Cheuvreux

Our net debt forecast is based on higher cash flow generation from USD2.7bn this year to USD3bn in 2009, implying a ~10% CAGR in 2006-09. Our other key assumptions follow:

Cash flow statement assumptions

- We estimate that rising working capital will have a negative impact of ~ USD0.5bn cumulated over the 3-year period to 2009, mainly in 2007 due to the consolidation of Hydril.
- We factored in a USD1.3-1.4bn capex plan, of which USD0.3-0.4bn should be absorbed by the newly-acquired US subsidiaries, corresponding to ~4% capex to sales, which is not far from the ~5% level reported for the past 4-5 years.
- We factored in USD1.3bn of dividend payments, based on our forecast for an DPS increase from USD0.30 this year to USD0.36 in 2007 and USD0.41 in 2009.

As a result, our forecast for the equity free cash flow yield ranges from 6.4% in 2007 and 9.2% in 2009.

Tenaris: Cash flow statement

(USD, %)	2003A	2004A	2005A	2006A	2007E	2008E	2009E
Cash flow	382.7	719.3	1 729.5	2 280.4	2 658.0	2 877.8	3 059.6
% Change	-31.9%	88.0%	140.4%	31.9%	16.6%	8.3%	6.3%
Change in WCR	(107.1)	(621.2)	(434.0)	(469.5)	(381.7)	(86.8)	(42.0)
Capex	(162.6)	(183.3)	(284.5)	(441.0)	(480.0)	(450.0)	(420.0)
Net cash flow	113.0	(85.2)	1 011.0	1 369.9	1 796.2	2 341.0	2 597.7
Financial investments	(96.4)	(97.6)	(88.3)	(3 122.5)	(2 150.0)	1.0	2.0
Disposals	6.0	80.9	80.0	68.0	10.0	10.0	10.0
Dividend paid	(129.0)	(135.0)	(349.0)	(204.2)	(354.2)	(422.6)	(453.1)
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	0.0	0.0	111.0	(23.2)	0.0	0.0	0.0
Dec. [inc.] in net debt	(106.4)	(236.9)	764.7	(1 912.0)	(697.9)	1 929.4	2 156.6
Attrib. FCF yield (%)			7.6%	4.7%	6.4%	8.3%	9.2%

Source: Cheuvreux

Tenaris									
FY to 31/12 (Us Dollar m)	2001	2002	2003	2004	2005	2006	2007E	2008E	2009E
Profit & Loss Account									
Sales	3 174.0	3 219.0	3 180.0	4 135.0	6 736.0	7 727.0	10 271.9	11 139.8	11 559.3
<i>% Change</i>		1.4%	-1.2%	30.0%	62.9%	14.7%	32.9%	8.4%	3.8%
Staff costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other costs	(2 571.7)	(2 571.7)	(2 692.2)	(3 114.5)	(4 573.8)	(4 680.2)	(6 589.4)	(7 163.5)	(7 395.5)
EBITDA	602.3	647.3	487.8	1 020.5	2 162.2	3 046.8	3 682.5	3 976.2	4 163.8
<i>% Change</i>		7.5%	-24.6%	109.2%	111.9%	40.9%	20.9%	8.0%	4.7%
Depreciation	(161.7)	(176.3)	(199.8)	(207.0)	(214.2)	(255.0)	(430.0)	(489.0)	(539.0)
EBITA	440.6	471.0	288.0	813.5	1 948.0	2 791.8	3 252.5	3 487.2	3 624.8
<i>% Change</i>		6.9%	-38.9%	182.5%	139.5%	43.3%	16.5%	7.2%	3.9%
Goodwill amortisation before OP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	440.6	471.0	288.0	813.5	1 948.0	2 791.8	3 252.5	3 487.2	3 624.8
Net financial items	(25.6)	(20.6)	(29.4)	5.8	(109.7)	(31.8)	(120.0)	(100.0)	(45.0)
Non recurring financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(218.8)	(207.8)	(64.0)	(220.3)	(568.8)	(870.0)	(1 024.5)	(1 098.5)	(1 159.1)
Associates [contribution]	(41.3)	(6.8)	27.6	206.0	117.7	121.5	120.0	100.0	100.0
Discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit [loss] before minorities	154.9	235.8	222.2	805.0	1 387.3	2 011.5	2 228.0	2 388.8	2 520.6
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(74.5)	(142.4)	(12.1)	(20.2)	(109.7)	(66.9)	(115.0)	(123.3)	(130.1)
Net attributable profit [loss]	80.4	93.4	210.1	784.8	1 277.6	1 944.6	2 113.0	2 265.5	2 390.5
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net attrib. profit [loss], restated	80.4	93.4	210.1	784.8	1 277.6	1 944.6	2 113.0	2 265.5	2 390.5
<i>% Change</i>		16.2%	124.9%	NS	62.8%	52.2%	8.7%	7.2%	5.5%
Cash Flow Statement									
Cash flow	493.7	562.2	382.7	719.3	1 729.5	2 280.4	2 658.0	2 877.8	3 059.6
<i>% Change</i>		13.9%	-31.9%	88.0%	140.4%	31.9%	16.6%	8.3%	6.3%
Change in WCR	50.5	(100.8)	(107.1)	(621.2)	(434.0)	(469.5)	(381.7)	(86.8)	(42.0)
Capex	(222.8)	(147.6)	(162.6)	(183.3)	(284.5)	(441.0)	(480.0)	(450.0)	(420.0)
o/w Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	321.4	313.8	113.0	(85.2)	1 011.0	1 369.9	1 796.2	2 341.0	2 597.7
Financial investments	0.0	(15.1)	(96.4)	(97.6)	(88.3)	(3 122.5)	(2 150.0)	1.0	2.0
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	39.9	14.4	6.0	80.9	80.0	68.0	10.0	10.0	10.0
Dividend paid	(112.6)	(80.8)	(129.0)	(135.0)	(349.0)	(204.2)	(354.2)	(422.6)	(453.1)
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	0.0	0.0	0.0	0.0	111.0	(23.2)	0.0	0.0	0.0
Dec. [inc.] in net debt	248.7	232.3	(106.4)	(236.9)	764.7	(1 912.0)	(697.9)	1 929.4	2 156.6
Balance Sheet									
Shareholders' equity [group share]	0.0	1 694.0	1 841.0	1 841.0	3 507.8	5 338.0	7 096.8	8 939.7	10 877.1
Minority interests	0.0	187.0	120.0	120.0	268.1	363.0	482.6	607.9	739.7
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	454.4	268.0	292.2	911.3	911.3	911.3	911.3
Net debt [cash]	0.0	0.0	447.7	947.7	183.0	2 095.0	2 792.9	863.5	(1 293.1)
Gearing [%]	NS	NS	22.8	48.3	4.8	36.7	36.8	9.0	NS
Capital invested	0.0	1 881.0	2 863.1	3 176.7	4 251.1	8 707.3	11 283.6	11 322.4	11 235.0
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	45.8	99.4	159.1	2 844.5	2 844.5	2 844.5	2 844.5
Tangible assets	0.0	0.0	1 960.0	2 164.0	2 230.0	2 939.0	4 372.0	4 324.0	4 194.7
Financial assets	0.0	0.0	68.9	123.9	282.6	423.0	423.0	423.0	423.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Working capital requirement	0.0	0.0	788.4	789.4	1 579.4	3 262.4	3 644.1	3 730.9	3 772.9
WCR as a % of sales	0.0	0.0	24.8	19.1	23.4	42.2	35.5	33.5	32.6
Capital employed	0.0	0.0	2 863.1	3 176.7	4 251.1	9 468.9	11 283.6	11 322.4	11 235.0

Tenaris

FY to 31/12 (Us Dollar)	2001	2002	2003	2004	2005	2006	2007E	2008E	2009E
Per Share Data (at 17/5/2007)									
EPS before goodwill	0.07	0.08	0.18	0.67	1.08	1.65	1.79	1.92	2.03
% Change		15.9%	125.0%	NS	62.7%	52.2%	8.7%	7.2%	5.5%
EPS, reported	0.07	0.08	0.18	0.67	1.08	1.65	1.79	1.92	2.03
% Change		15.9%	125.0%	NS	62.7%	52.2%	8.7%	7.2%	5.5%
Goodwill per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend per share	0.07	0.11	0.12	0.30	0.31	0.30	0.36	0.38	0.41
Cash flow per share	0.43	0.48	0.33	0.61	1.47	1.93	2.25	2.44	2.59
% Change		13.6%	-32.4%	86.2%	140.6%	31.9%	16.6%	8.3%	6.3%
Book value per share	(0.1)	1.3	1.5	1.3	2.7	4.2	5.7	7.2	8.8
No. of shares, adjusted	1160.000	1161.000	1170.000	1180.500	1180.500	1180.500	1180.500	1180.500	1180.500
Av. number of shares, adjusted	1160.000	1161.000	1170.000	1180.500	1180.500	1180.500	1180.500	1180.500	1180.500
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Share Price [Adjusted]									
Latest price	-	1.90	3.32	8.43	11.34	24.91	22.67	22.67	22.67
High	-	1.94	3.33	9.33	15.25	25.25	25.98	-	-
Low	-	1.65	1.85	2.83	4.20	12.19	20.40	-	-
Average price	-	1.86	2.46	4.69	8.67	18.77	23.15	-	-
Market capitalisation	-	2 205.9	3 884.4	9 951.6	13 388.2	29 408.4	26 762.6	26 762.6	26 762.6
Enterprise value	-	2 205.9	4 263.2	10 775.4	13 288.6	30 883.4	30 344.1	28 414.7	26 258.1
Valuation									
P/E	NS	23.6	18.5	12.7	10.5	15.1	12.7	11.8	11.2
P/E before goodwill	NS	23.6	18.5	12.7	10.5	15.1	12.7	11.8	11.2
P/CF	NS	3.9	10.2	13.8	7.7	12.9	10.1	9.3	8.7
Attrib. FCF yield [%]	-	14.2	2.9	NS	7.6	4.7	6.4	8.3	9.2
P/BV	NS	1.4	2.3	6.7	4.3	5.9	4.0	3.2	2.6
Enterprise value / Op CE	NS	NS	1.5	3.5	3.3	3.4	2.8	2.6	2.4
Yield [%]	-	5.8	3.5	3.5	2.7	1.2	1.6	1.7	1.8
EV/EBITDA, restated	NS	3.4	8.7	10.6	6.1	10.1	8.2	7.1	6.3
EV/EBITA, restated	NS	4.7	14.8	13.2	6.8	11.1	9.3	8.1	7.2
EV/Sales	NS	0.69	1.34	2.61	1.97	4.0	3.0	2.6	2.3
EV/Debt-adjusted cash flow	NS	3.8	10.5	15.1	7.4	13.4	10.6	9.2	8.0
Financial Ratios									
Interest cover	17.2	NS	9.8	NS	17.8	NS	NS	NS	NS
Net debt/Cash flow	NS	NS	1.2	1.3	0.1	0.9	1.1	0.3	NS
EBITDA margin [%]	19.0	20.1	15.3	24.7	32.1	39.4	35.9	35.7	36.0
EBITA margin [%]	13.9	14.6	9.1	19.7	28.9	36.1	31.7	31.3	31.4
Net margin [%]	4.9	7.3	7.0	19.5	20.6	26.0	21.7	21.4	21.8
Capital turn [Sales/ Op. CE]	NS	NS	1.1	1.4	1.7	0.9	0.9	1.0	1.1
Gearing [%]	NS	NS	22.8	48.3	4.8	36.7	36.8	9.0	NS
Payout ratio [%]	101.0	138.0	64.0	44.5	28.6	18.2	20.0	20.0	20.0
Return [%]									
Pre-tax RoCE	NS	NS	10.3	26.6	49.1	30.9	29.9	32.0	33.5
RoCE after tax	NS	NS	8.0	20.9	34.8	21.5	20.5	21.9	23.0
ROE [%]	NS	5.7	12.1	54.2	44.5	44.5	35.0	29.0	24.7
Return on equity, restated	NS	5.7	12.1	54.2	44.5	44.5	35.0	29.0	24.7

Important Disclosures

Applicable disclosure clauses

Company	Closing Price	Rating	Disclosures
Tenaris	USD16.798	3/Underperform	E

- A - One or more companies in the Crédit Agricole S.A. group owned more than 1% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- B - One or more companies in the Crédit Agricole S.A. group owned more than 5% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.
- C - The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.
- D - One or more companies in the Crédit Agricole S.A. group held, as of the end of the second most recent trading day, a net sales position higher than 1% of the total issued share capital of the Company.
- E - The trading portfolio of one or more companies in the Crédit Agricole S.A. group contained shares of the Company as of the end of the second most recent trading day.
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- J - A director or a board member of the Crédit Agricole S.A. group is an officer, director, or board member of the Company.

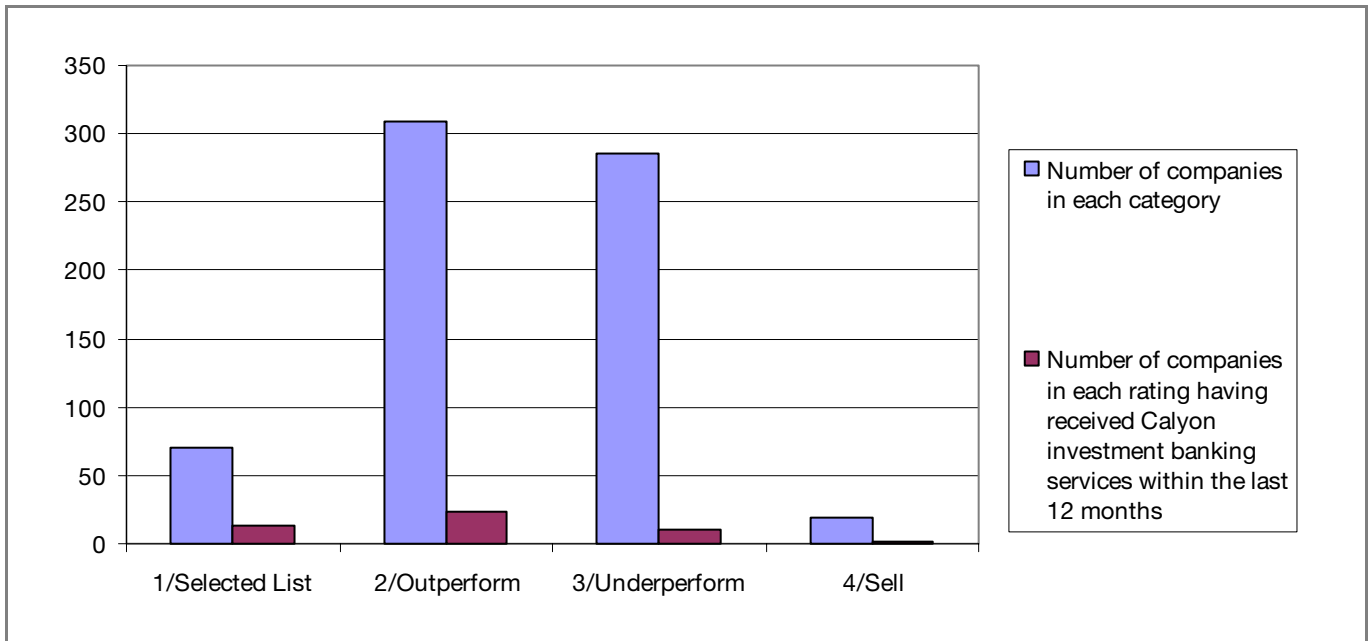
Specific disclosure clauses

None.

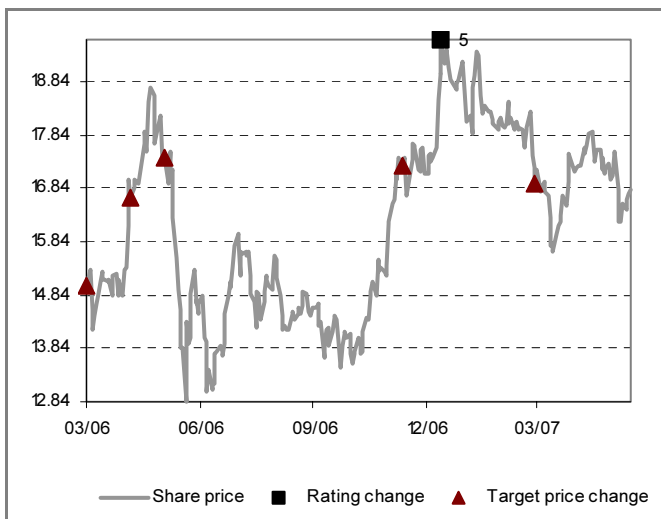
Cheuvreux's rating and target price system

Ratings are built for a 6 to 12 month time horizon.	
1/ Selected List	Expected to outperform the market and is in our country selected list
2/ Outperform	Expected to outperform the market
3/ Underperform	Expected to perform at best in line with the market
4/ Sell	Expected to underperform the market substantially
No Rating or Suspended	The investment rating and target price have been suspended . Such suspension is pursuant to Cheuvreux's policy in circumstances when Cheuvreux's parent company, Calyon, is acting in an advisory capacity in a merger or strategic transaction involving this company or when Calyon or Crédit Agricole has a beneficial interest in this company and in certain other circumstances.
Target price methodology	Cheuvreux's target prices are derived from one or more of the following methodologies : DCF, SOP, peer comparison and EVA.
Quote definitions	Unless specified, all quotes that appear on Institutional research reports are closing prices the last business day.

Breakdown by rating category (as at 31/12/2006)



Share price trend and dates of changes in rating and/or target price



Dates of changes in target price and/or rating

N°	Date	Rating	Target price
1	03/03/2006		USD20.30
2	07/04/2006		USD24.50
3	05/05/2006		USD25.00
4	14/11/2006		USD26.70
5	15/12/2006	3/Underperform	
6	01/03/2007		USD23.00
7	18/05/2007	2/Outperform	USD19.40

Local regulatory authorities

Country	Cheuvreux legal entity	Regulatory authority
France	Crédit Agricole Cheuvreux SA	Autorité des Marchés Financiers (AMF)
Germany	Crédit Agricole Cheuvreux Niederlassung – Frankfurt Branch	Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)
Italy	Crédit Agricole Cheuvreux Italia SIM SpA	Commissione Nazionale per le Società e la Borsa (Consob)
The Netherlands	Crédit Agricole Cheuvreux - Amsterdam Branch	Autoriteit Financiële Markten (AFM)
Spain	Crédit Agricole Cheuvreux Espana SV SA	Comisión Nacional del Mercado de Valores (CNMV)
Sweden	Crédit Agricole Cheuvreux Nordic AB	Finansinspektionen
Switzerland	Crédit Agricole Cheuvreux - Zurich Branch	Swiss Federal Banking Commission (SFBC)
United Kingdom	Crédit Agricole Cheuvreux International Ltd	Financial Services Authority (FSA)

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