SAUL CENTERS INC
Form 10-K
March 07, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File number 1-12254
SAUL CENTERS, INC.
(Exact name of registrant as specified in its charter)

Maryland	52-1833074
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (301) 986-6200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.01 Per Share	New York Stock Exchange
Depositary Shares each representing 1/100th of a share of 6.875% Series C Cumulative Redeemable Preferred Stock, Par Value $0.01 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes o No x.

Indicate by check mark whether 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 o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer x
Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x.

The number of shares of Common Stock, $0.01 par value, issued and outstanding as of March 1, 2017 was 21.5 million.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange on June 30, 2016 was $741.9 million.

DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of registrant's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the Securities Exchange Commission pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as “plans,” “intends,” “estimates,” “anticipates,” “expects,” “believes” or similar express in this Form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors, see “Item 1A. Risk Factors” in this Form 10-K.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Form 10-K or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Form 10-K.

Item 1. Business

General

Saul Centers, Inc. (“Saul Centers”) was incorporated under the Maryland General Corporation Law on June 10, 1993. Saul Centers operates as a real estate investment trust (a “REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). The Company is required to annually distribute at least 90% of its REIT taxable income (excluding net capital gains) to its stockholders and meet certain organizational and other requirements. Saul Centers has made and intends to continue to make regular quarterly distributions to its stockholders. Saul Centers, together with its wholly owned subsidiaries and the limited partnerships of which Saul Centers or one of its subsidiaries is the sole general partner, are referred to collectively as the “Company.” B. Francis Saul II serves as Chairman of the Board of Directors and Chief Executive Officer of Saul Centers.

The Company’s principal business activity is the ownership, management and development of income-producing properties. The Company’s long-term objectives are to increase cash flow from operations and to maximize capital appreciation of its real estate.

Saul Centers was formed to continue and expand the shopping center business previously owned and conducted by the B. F. Saul Real Estate Investment Trust, the B. F. Saul Company and certain other affiliated entities, each of which is controlled by B. Francis Saul II and his family members (collectively, the "Saul Organization”). On August 26, 1993, members of the Saul Organization transferred to Saul Holdings Limited Partnership, a newly formed Maryland limited partnership (the “Operating Partnership”), and two newly formed subsidiary limited partnerships (the “Subsidiary Partnerships,” and collectively with the Operating Partnership, the “Partnerships”), shopping center and mixed-use properties, and the management functions related to the transferred properties. Since its formation, the Company has developed and purchased additional properties.

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The following table lists the significant properties acquired, developed and/or disposed of by the Company since January 1, 2014.

Name of Property	Location	Type	Square Footage	Year of Acquisition/ Development/ Disposal
Acquisitions				
1580 Rockville Pike	Rockville, Maryland	Shopping Center	12,100	January 2014
1582 Rockville Pike	Rockville, Maryland	Shopping Center	40,700	April 2014
750 N. Glebe Road*	Arlington, Virginia	Shopping Center	16,900	August 2014
730 N. Glebe Road*	Arlington, Virginia	Shopping Center	2,000	December 2014
1584 Rockville Pike	Rockville, Maryland	Shopping Center	4,600	December 2014
726 N. Glebe Road*	Arlington, Virginia	Shopping Center	4,800	September 2015
700 N. Glebe Road	Arlington, Virginia	Development	N/A	August 2016
Developments				
Park Van Ness	Washington, DC	Mixed-Use		2013-2016
Dispositions				
Giant Center	Milford Mill, Maryland	Shopping Center	70,040	April 2014
Crosstown Business Center	Tulsa, Oklahoma	Mixed-Use	197,100	December 2016

*As of August 2016, these properties were removed from operations and reclassified to development.

As of December 31, 2016, the Company's properties (the "Current Portfolio Properties") consisted of 49 shopping center properties (the "Shopping Centers"), six mixed-use properties, which are comprised of office, retail and multi-family residential uses (the "Mixed-Use Properties") and three (non-operating) development properties. Shopping Centers and Mixed-Use Properties represent reportable business segments for financial reporting purposes. Revenue, net income, total assets and other financial information of each reportable segment are described in Note 15 to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

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Organizational Structure

The Company conducts its business through the Operating Partnership and/or directly or indirectly owned subsidiaries. The following diagram depicts the Company's organizational structure and beneficial ownership of the common and preferred stock of Saul Centers calculated pursuant to Rule 13d-3 of the Exchange Act as of December 31, 2016.

(1) The Saul Organization's ownership percentage in Saul Centers reported above does not include units of limited partnership interest of the Operating Partnership held by the Saul Organization. In general, most units are convertible into shares of the Company's common stock on a one-for-one basis. However, not all of the units may be convertible into the Company's common stock because (i) the articles of incorporation limit beneficial and constructive ownership (defined by reference to various Code provisions) to 39.9% in value of the Company's issued and outstanding common and preferred equity securities, which comprise the ownership limit and (ii) the convertibility of some of the outstanding units is subject to approval of the Company's stockholders.

Management of the Current Portfolio Properties

The Operating Partnership manages the Current Portfolio Properties and will manage any subsequently acquired or developed properties. The management of the properties includes performing property management, leasing, design, renovation, development and accounting duties for each property. The Operating Partnership provides each property with a fully integrated property management capability, with approximately 58 full-time equivalent employees at its headquarters office and 45 employees at its properties and with an extensive and mature network of relationships with tenants and potential tenants as well as with members of the brokerage and property

owners' communities. The Company currently does not, and does not intend to, retain third party managers or provide management services to third parties.

The Company augments its property management capabilities by sharing with the Saul Organization certain ancillary functions, at cost, such as information technology and payroll services, benefits administration and in-house legal services. The Company also shares insurance administration expenses on a pro rata basis with the Saul Organization. Management believes that these arrangements result in lower costs than could be obtained by contracting with third parties. These arrangements permit the Company to capture greater economies of scale in purchasing from third party vendors than would otherwise be available to the Company alone and to capture internal economies of scale by avoiding payments representing profits with respect to functions provided internally. The terms of all sharing arrangements with the Saul Organization, including payments related thereto, are specified in a written agreement and are reviewed annually by the Audit Committee of the Company's Board of Directors.

The Company subleases its corporate headquarters space from the Saul Organization at the Company's share of the cost. A discussion of the lease terms is provided in Note 7, Long Term Lease Obligations, of the Notes to Consolidated Financial Statements.

Principal Offices

The principal offices of the Company are located at 7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522, and the Company's telephone number is (301) 986-6200. The Company's internet web address is www.saulcenters.com. Information contained on the Company's website is not part of this report. The Company makes available free of charge on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Alternatively, you may access these reports at the SEC's website: www.sec.gov.

Policies with Respect to Certain Activities

The following is a discussion of the Company's operating strategy and certain of its investment, financing and other policies. These strategies and policies have been determined by the Board of Directors and, in general, may be amended or revised from time to time by the Board of Directors without a vote of the Company's stockholders.

Operating Strategies

The Company's primary operating strategy is to focus on its community and neighborhood Shopping Center business and to operate its properties to achieve both cash flow growth and capital appreciation. Community and neighborhood shopping centers typically provide reliable cash flow and steady long-term growth potential. Management actively manages its property portfolio by engaging in strategic leasing activities, tenant selection, lease negotiation and shopping center expansion and reconfiguration. The Company seeks to optimize tenant mix by selecting tenants for its Shopping Centers that provide a broad spectrum of goods and services, consistent with the role of community and neighborhood shopping centers as the source for day-to-day necessities. Management believes that such a synergistic tenanting approach results in increased cash flow from existing tenants by providing the Shopping Centers with consistent traffic and a desirable mix of shoppers, resulting in increased sales and, therefore, increased cash flows. Management believes there is potential for long term growth in cash flow as existing leases for space in the Shopping Centers expire and are renewed, or newly available or vacant space is leased. The Company intends to renegotiate leases where possible and seek new tenants for available space in order to optimize the mix of uses to improve foot traffic through the Shopping Centers. As leases expire, management expects to revise rental rates, lease terms and conditions, relocate existing tenants, reconfigure tenant spaces and introduce new tenants with the goals of increasing occupancy, improving overall retail sales, and ultimately increasing cash flow as economic conditions improve. In those circumstances in which leases are not otherwise expiring, management selectively attempts to increase cash flow through a variety of means, or in connection with renovations or relocations, recapturing leases

with below market rents and re-leasing at market rates, as well as replacing financially troubled tenants. When possible, management also will seek to include scheduled increases in base rent, as well as percentage rental provisions, in its leases.

The Company will also seek growth opportunities in its Washington, D.C. metropolitan area Mixed-Use portfolio, primarily through development and redevelopment, as evidenced by the commencement in 2013 of the redevelopment of Park Van Ness (formerly Van Ness Square). The Company is in the early stages of the development of a primarily residential project with street-level retail at 750 N. Glebe Road in Arlington, Virginia. The cost of this project, which has not been determined, is expected to be funded through debt financing and working capital, including the Company's existing line of credit. Management also intends to negotiate lease renewals or to re-lease available space in the Mixed-Use Properties, while considering the strategic balance of optimizing short-term cash flow and long-term asset value.

It is management’s intention to hold properties for long-term investment and to place strong emphasis on regular maintenance, periodic renovation and capital improvement. Management believes that characteristics such as cleanliness, lighting and security are particularly important in community and neighborhood shopping centers, which are frequently visited by shoppers during hours outside of the normal work-day. Management believes that the Shopping Centers and Mixed-Use Properties generally are attractive and well maintained. The Shopping Centers and Mixed-Use Properties will undergo expansion, renovation, reconfiguration and modernization from time to time when management believes that such action is warranted by opportunities or changes in the competitive environment of a property. The Company will continue its practice of expanding existing properties by undertaking new construction on outparcels suitable for development as free standing retail or office facilities.

Investment in Real Estate or Interests in Real Estate

The Company’s redevelopment and renovation objective is to selectively and opportunistically redevelop and renovate its properties, by replacing below-market-rent leases with strong, traffic-generating anchor stores such as supermarkets and drug stores, as well as other desirable local, regional and national tenants. The Company’s strategy remains focused on continuing the operating performance and internal growth of its existing Shopping Centers, while enhancing this growth with selective acquisitions, redevelopments and renovations.

In 2016, the Company completed development of Park Van Ness, a 271-unit residential project with approximately 9,000 square feet of street-level retail, below street-level structured parking, and amenities including a community room, landscaped courtyards, a fitness room, a wi-fi lounge/business center, and a rooftop pool and deck. The structure comprises 11 levels, five of which on the east side are below street level. Because of the change in grade from the street eastward to Rock Creek Park, apartments on all 11 levels have park or city views. The street level retail space is 100% leased to a grocery/gourmet food market and an upscale Italian restaurant. As of March 1, 2017, leases have been executed for 217 apartments (80.1%) and 205 apartments were occupied. The total cost of the project, excluding predevelopment expense and land, which the Company has owned, was approximately $93.0 million, a portion of which was financed with a $71.6 million construction-to-permanent loan. Costs incurred through December 31, 2016, total approximately $92.9 million, of which $70.1 million has been financed by the loan.

In 2014, in separate transactions, the Company purchased three properties, with approximately 57,400 square feet of retail space, for an aggregate $25.2 million. The three properties are adjacent to an existing property on the east side of Rockville Pike near the Twinbrook Metro station. Combined, the four properties total 10.3 acres and are zoned for up to 1.2 million square feet of rentable mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

The Company owns properties on the east and west sides of Rockville Pike near the White Flint Metro station which combined total 7.6 acres which are zoned for a development potential of up to 1.6 million square feet of mixed-use space. The Company is actively engaged in a plan for redevelopment but has not committed to any timetable for commencement of construction.

In January 2016, the Company terminated a 16,500 square foot lease at 11503 Rockville Pike and received a $3.0 million lease termination fee which was recognized as revenue in the first quarter. The space was

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previously occupied by an office supply store that had vacated in mid 2014 and the lease was scheduled to expire in 2019. The termination fee revenue was partially offset by the loss of approximately $1.1 million in rental revenue over the remainder of 2016. The Company has executed a lease with a replacement tenant, with occupancy and rent commencement projected to be Spring 2017. While the Company continues to plan for a mixed-use development at this site and its neighboring Metro Pike Center, the initial phases of this development are expected to be on the west side of Rockville Pike at Metro Pike Center. The Company has not committed to any timetable for commencement of construction.

From 2014 through 2016, in separate transactions, the Company purchased four adjacent properties, with approximately 23,700 square feet of retail space, on North Glebe Road in Arlington, Virginia, for an aggregate $54.0 million. Combined, the properties total 2.8 acres. Effective August 1, 2016,tom" width="9%" style="TEXT-ALIGN: right">(47,779) (92,085)

- Changes in the fair value of derivatives held as cash flow hedges and others					(599)	(931)	1,129	853
Income tax relating to components of other comprehensive income (3)					(8)	(1,149)	679	(1,732)
Other comprehensive loss for the period, net of tax					(68,932)	(203,990)	(81,563)	(154,912)
Total comprehensive income for the period					360,633	251,281	770,719	748,588
Attributable to:								
Owners of the parent					348,751	272,016	761,099	746,012
Non-controlling interests	11,882	(20,735)	9,620	2,576	360,633	251,281	770,719	748,588

(3) Relates to cash flow hedges and others.

The accompanying notes are an integral part of these Consolidated Condensed Interim Financial Statements. These Consolidated Condensed Interim Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the fiscal year ended December 31, 2012.

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CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

(all amounts in thousands of U.S. dollars)	Notes	At June 30, 2013 (Unaudited)		At December 31, 2012	
ASSETS					
Non-current assets					
Property, plant and equipment, net	8	4,536,995		4,434,970	
Intangible assets, net	9	3,131,767		3,199,916	
Investments in associated companies		929,251		977,011	
Other investments		2,552		2,603	
Deferred tax assets		192,433		215,867	
Receivables		121,765	8,914,763	142,060	8,972,427
Current assets					
Inventories		2,697,932		2,985,805	
Receivables and prepayments		246,710		260,532	
Current tax assets		152,066		175,562	
Trade receivables		2,179,089		2,070,778	
Available for sale assets	13	21,572		21,572	
Other investments		1,113,065		644,409	
Cash and cash equivalents		618,435	7,028,869	828,458	6,987,116
Total assets			15,943,632		15,959,543
EQUITY					
Capital and reserves attributable to owners of the parent			11,724,417		11,328,031
Non-controlling interests			165,436		171,561
Total equity			11,889,853		11,499,592
LIABILITIES					
Non-current liabilities					
Borrowings		423,442		532,407	
Deferred tax liabilities		672,918		728,541	
Other liabilities		292,715		302,444	
Provisions		73,379	1,462,454	67,185	1,630,577
Current liabilities					
Borrowings		1,093,810		1,211,785	
Current tax liabilities		253,805		254,603	
Other liabilities		369,299		318,828	
Provisions		20,014		26,958	
Customer advances		34,342		134,010	
Trade payables		820,055	2,591,325	883,190	2,829,374
Total liabilities			4,053,779		4,459,951
Total equity and liabilities			15,943,632		15,959,543
			2		3

The accompanying notes are an integral part of these Consolidated Condensed Interim Financial Statements. These Consolidated Condensed Interim Financial Statements should be read in conjunction with our audited Consolidated

Financial Statements and notes for the fiscal year ended December 31, 2012.

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CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
(all amounts in thousands of U.S. dollars)

	Attributable to owners of the parent								
	Share Capital (1)	Legal Reserves	Share Premium	Currency Translation Adjustment	Other Reserves	Retained Earnings (2)	Total	Non-controlling interests	Total (Unaudited)
Balance at December 31, 2012	1,180,537	118,054	609,733	(317,425)	(252,907)	10,050,024	11,388,016	172,310	11,560,326
Effect of adopting IAS 19R	-	-	-	-	(59,985)	-	(59,985)	(749)	(60,734
Balance at January 1, 2013	1,180,537	118,054	609,733	(317,425)	(312,892)	10,050,024	11,328,031	171,561	11,499,592
Income for the period	-	-	-	-	-	842,605	842,605	9,677	852,282
Currency translation adjustment	-	-	-	(40,754)	-	-	(40,754)	(57)	(40,811
Hedge reserve, net of tax and others	-	-	-	-	5,898	-	5,898	-	5,898
Share of other comprehensive income of associates	-	-	-	(47,779)	1,129	-	(46,650)	-	(46,650
Other comprehensive (loss) income for the period	-	-	-	(88,533)	7,027	-	(81,506)	(57)	(81,563
Total comprehensive income for the period	-	-	-	(88,533)	7,027	842,605	761,099	9,620	770,719
Acquisition of non-controlling interests	-	-	-	-	(10,552)	-	(10,552)	2,784	(7,768
Dividends paid in cash	-	-	-	-	-	(354,161)	(354,161)	(18,529)	(372,690
Balance at June 30, 2013	1,180,537	118,054	609,733	(405,958)	(316,417)	10,538,468	11,724,417	165,436	11,889,853

	Attributable to owners of the parent								
	Share Capital (1)	Legal Reserves	Share Premium	Currency Translation	Other Reserves	Retained Earnings	Total	Non-controlling interests	Total

Adjustment

									(Unaudited)
Balance at December 31, 2011	1,180,537	118,054	609,733	(211,366)	9,688	8,799,581	10,506,227	666,716	11,172,943
Effect of adopting IAS 19R	-	-	-	-	(49,522)	-	(49,522)	(685)	(50,207
Balance at January 1, 2012	1,180,537	118,054	609,733	(211,366)	(39,834)	8,799,581	10,456,705	666,031	11,122,736
Income for the period	-	-	-	-	-	894,842	894,842	8,658	903,500
Currency translation adjustment	-	-	-	(34,261)	-	-	(34,261)	(7,251)	(41,512
Hedge reserve, net of tax	-	-	-	-	(23,256)	-	(23,256)	1,088	(22,168
Share of other comprehensive income of associates	-	-	-	(92,085)	772	-	(91,313)	81	(91,232
Other comprehensive loss for the period	-	-	-	(126,346)	(22,484)	-	(148,830)	(6,082)	(154,912
Total comprehensive income for the period	-	-	-	(126,346)	(22,484)	894,842	746,012	2,576	748,588
Acquisition of non-controlling interests (3)	-	-	-	-	(268,517)	-	(268,517)	(490,022)	(758,539
Dividends paid in cash	-	-	-	-	-	(295,134)	(295,134)	(905)	(296,039
Balance at June 30, 2012	1,180,537	118,054	609,733	(337,712)	(330,835)	9,399,289	10,639,066	177,680	10,816,746

(1) The Company has an authorized share capital of a single class of 2.5 billion shares having a nominal value of USD1.00 per share. As of June 30, 2013 and 2012 there were 1,180,536,830 shares issued. All issued shares are fully paid.
(2) The Distributable Reserve and Retained Earnings as of December 31, 2012 calculated in accordance with Luxembourg Law are disclosed in Note 10.
(3) See Note 11.

The accompanying notes are an integral part of these Consolidated Condensed Interim Financial Statements. These Consolidated Condensed Interim Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the fiscal year ended December 31, 2012.

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS

(all amounts in thousands of U.S. dollars)	Notes	Six-month period ended June 30, 2013	2012
Cash flows from operating activities		(Unaudited)	
Income for the period		852,282	903,500
Adjustments for:			
Depreciation and amortization	8 & 9	296,972	275,884
Income tax accruals less payments		25,021	(105,779)
Equity in earnings of associated companies		(24,066)	(20,131)
Interest accruals less payments, net		(35,021)	(18,256)
Changes in provisions		(917)	(16,557)
Changes in working capital		72,457	51,343
Other, including currency translation adjustment		(12,263)	(47,567)
Net cash provided by operating activities		1,174,465	1,022,437
Cash flows from investing activities			
Capital expenditures	8 & 9	(363,559)	(400,926)
Acquisition of associated company	11	-	(504,597)
Proceeds from disposal of property, plant and equipment and intangible assets		6,746	2,915
Dividends received from associated companies		16,127	18,702
Changes in investments in short terms securities		(468,656)	11,367
Net cash used in investing activities		(809,342)	(872,539)
Cash flows from financing activities			
Dividends paid		(354,161)	(295,134)
Dividends paid to non-controlling interest in subsidiaries		(18,529)	(905)
Acquisitions of non-controlling interests	11	(7,768)	(758,539)
Proceeds from borrowings		1,220,390	1,214,234
Repayments of borrowings		(1,354,772)	(439,116)
Net cash used in financing activities		(514,840)	(279,460)
Decrease in cash and cash equivalents		(149,717)	(129,562)
Movement in cash and cash equivalents			
At the beginning of the period		772,656	815,032
Effect of exchange rate changes		(16,913)	8,242
Decrease in cash and cash equivalents		(149,717)	(129,562)
At June 30,		606,026	693,712

	At June 30,	
Cash and cash equivalents	2013	2012
Cash and bank deposits	618,435	742,618
Bank overdrafts	(12,409)	(48,906)
	606,026	693,712

The accompanying notes are an integral part of these Consolidated Condensed Interim Financial Statements. These Consolidated Condensed Interim Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and notes for the fiscal year ended December 31, 2012.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
(In the notes all amounts are shown in U.S. dollars, unless otherwise stated)

1 General information

Tenaris S.A. (the "Company") was established as a public limited liability company (Société Anonyme) under the laws of the Grand-Duchy of Luxembourg on December 17, 2001. The Company holds, either directly or indirectly, controlling interests in various subsidiaries in the steel pipe manufacturing and distribution businesses. References in these Consolidated Condensed Interim Financial Statements to "Tenaris" refer to Tenaris S.A. and its consolidated subsidiaries. A list of the principal Company's subsidiaries is included in Note 30 to the Company's audited Consolidated Financial Statements for the year ended December 31, 2012.

The Company's shares trade on the Buenos Aires Stock Exchange, the Italian Stock Exchange and the Mexican Stock Exchange; the Company's American Depositary Securities ("ADS") trade on the New York Stock Exchange.

These Consolidated Condensed Interim Financial Statements were approved for issuance by the Company's board of directors on August 1, 2013.

2 Accounting policies and basis of presentation

These Consolidated Condensed Interim Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". The accounting policies used in the preparation of these Consolidated Condensed Interim Financial Statements are consistent with those used in the audited Consolidated Financial Statements for the year ended December 31, 2012, except for changes described below. These Consolidated Condensed Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and adopted by the European Union ("EU").

The preparation of Consolidated Condensed Interim Financial Statements in conformity with IFRS requires management to make certain accounting estimates and assumptions that might affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet dates, and the reported amounts of revenues and expenses for the reported periods. Actual results may differ from these estimates.

Material inter-company transactions, balances and unrealized gains (losses) on transactions between Tenaris's subsidiaries have been eliminated in consolidation. However, since the functional currency of some subsidiaries is its respective local currency, some financial gains (losses) arising from inter-company transactions are generated. These are included in the Consolidated Condensed Interim Income Statement under Other financial results.

The comparative amounts have been reclassified to conform to changes in presentation in the current year.

Accounting pronouncements applicable as from January 1, 2013 and relevant for Tenaris

IAS 1, "Financial statement presentation"

In June 2011, the IASB issued IAS 1 (amended 2011), "Financial statement presentation". The amendment requires entities to separate items presented in Other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. See impact of the application in the Consolidated Condensed Interim Statement of Other Comprehensive Income.

IAS 19 (amended 2011), “Employee benefits”

In June 2011, the IASB issued IAS 19 (amended 2011), “Employee benefits”, which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. IAS 19 (amended 2011) was applied retrospectively, as indicated in the transitional provisions of such IFRS. These changes are related to recognizing in other comprehensive income of the period in which they arise the actuarial gains and losses arising from past experience adjustments and changes in actuarial assumptions. Past-service costs are recognized immediately in the income statement.

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2 Accounting policies and basis of presentation (Cont.)

Accounting pronouncements applicable as from January 1, 2013 and relevant for Tenaris (Cont.)

IAS 19 (amended 2011), "Employee benefits" (Cont.)

As from January 1, 2013, the Company adopted IAS 19 (amended 2011). The effect of these changes in the recognition and measurement of pension obligations and other post-employment obligations was $60.7 million ($77.0 million in other long term liabilities net of a deferred income tax of $22.3 million and $6.0 million related to the adoption of IAS 19 in associated companies) and $50.2 million ($63.6 million in other long term liabilities net of a deferred income tax of $18.6 million and $5.2 million related to the adoption of IAS 19 in associated companies) for 2012 and 2011, respectively.

IFRS 10, "Consolidated financial statements", IFRS 11, "Joint arrangements" and IFRS 12, "Disclosure of interests in other entities".

The application of these standards did not materially affect the Company's financial condition or results of operations.

IFRS 13, "Fair value measurement"

In May 2011, the IASB issued IFRS 13, "Fair value measurement". This standard explains how to measure fair value and aims to enhance fair value disclosures.

IFRS 13 requires for financial instruments that are measured at fair value, a disclosure of fair value measurements by level. See Section III.C. and D. to the Consolidated Financial Statements as of December 31, 2012 for definitions of levels of fair values and figures at that date.

The following table presents the assets and liabilities that are measured at fair value as of June 30, 2013:

June 30, 2013	Level 1	Level 2	Level 3 (*)	Total
Assets				
Cash and cash equivalents	618,435	-	-	618,435
Other investments	633,415	479,650	2,552	1,115,617
Derivatives financial instruments	-	24,554	-	24,554
Available for sale assets	-	-	21,572	21,572
Total	1,251,850	504,204	24,124	1,780,178
Liabilities				
Derivatives financial instruments	-	6,122	-	6,122
Total	-	6,122	-	6,122

(*) Main balances included in this level correspond to Available for sale assets related to Tenaris's interest in nationalized Venezuelan companies. For further detail regarding Available for sale assets, see Note 13.

Borrowings are classified under other financial liabilities and measured at their carrying amount. Tenaris estimates that the fair value of its main financial liabilities is approximately 101% of its carrying amount including interests accrued as of June 30, 2013. Tenaris estimates that a change of 100 basis points in the reference interest rates would have an estimated impact of approximately 0.2% in the fair value of borrowings as of June 30, 2013. Fair values were calculated using standard valuation techniques for floating rate instruments and comparable market rates for

discounting flows.

3 Segment Information

As explained in Section II.C. of the audited Consolidated Financial Statements for the year ended December 31, 2012, as from September 2012, following the acquisition of the non-controlling interest in Confab, its further delisting and after including the operations of the formerly Projects segment into Tubes, the Company is organized in one major business segment, Tubes, which is also the reportable operating segment.

Reportable operating segment

(all amounts in thousands of U.S. dollars)		(Unaudited)	
Six-month ended June 30, 2013	Tubes	Other	Total
Management View - Net Sales	5,107,375	360,118	5,467,493
· Sales of energy, surplus raw materials and others	-	40,082	40,082
IFRS - Net Sales	5,107,375	400,200	5,507,575
Management View - Operating income	1,112,813	50,434	1,163,247
· Differences in cost of sales and others	(31,713)	2,844	(28,869)
· Depreciation and amortization	(2,384)	(213)	(2,597)
IFRS - Operating income	1,078,716	53,065	1,131,781
Financial income (expense), net			(19,914)
Income before equity in earnings of associated companies and income tax			1,111,867
Equity in earnings of associated companies			24,066
Income before income tax			1,135,933
Capital expenditures	346,118	17,441	363,559
Depreciation and amortization	287,036	9,936	296,972

(all amounts in thousands of U.S. dollars)		(Unaudited)	
Six-month ended June 30, 2012	Tubes	Other	Total
Management View - Net Sales	4,974,848	405,758	5,380,606
· Sales of energy, surplus raw materials and others	-	38,235	38,235
IFRS - Net Sales	4,974,848	443,993	5,418,841
Management View - Operating income	1,011,739	67,489	1,079,228
· Differences in cost of sales and others	(4,021)	3,889	(132)
· Depreciation and amortization	110,314	(2,323)	107,991
IFRS - Operating income	1,118,032	69,055	1,187,087
Financial income (expense), net			(10,719)
Income before equity in earnings of associated companies and income tax			1,176,368
Equity in earnings of associated companies			20,131
Income before income tax			1,196,499
Capital expenditures	389,718	11,208	400,926
Depreciation and amortization	266,248	9,636	275,884

Net income under Management view amounted to $773.6 million, while under IFRS amounted to $852.3 million. In addition to the above, the main differences arise from the impact of functional currencies on financial result, income taxes as well as the result of investments in associated companies.

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3 Segment Information (Cont.)

Geographical information

(Unaudited) (all amounts in thousands of U.S. dollars)	North America	South America	Europe	Middle East & Africa	Far East & Oceania	Total
Six-month ended June 30, 2013						
Net sales	2,287,402	1,434,293	523,107	1,041,049	221,724	5,507,575
Capital expenditures	114,123	184,600	51,761	2,174	10,901	363,559
Depreciation and amortization	161,994	52,993	65,942	5,260	10,783	296,972
Six-month ended June 30, 2012						
Net sales	2,703,754	1,233,801	574,294	646,529	260,463	5,418,841
Capital expenditures	175,405	107,731	106,219	4,446	7,125	400,926
Depreciation and amortization	152,959	52,504	55,925	3,071	11,425	275,884

Allocation of net sales to geographical information is based on customer location. Allocation of depreciation and amortization is based on the geographical location of the underlying assets.

There are no revenues from external customers attributable to the Company's country of incorporation (Luxembourg). For geographical information purposes, "North America" comprises Canada, Mexico and the USA; "South America" comprises principally Argentina, Brazil, Colombia, Ecuador and Venezuela; "Europe" comprises principally Germany, Italy, Norway, Romania and United Kingdom; "Middle East and Africa" comprises principally Angola, Iraq, Nigeria, Saudi Arabia and United Arab Emirates; "Far East and Oceania" comprises principally China, Indonesia and Japan.

4 Cost of sales

(all amounts in thousands of U.S. dollars)	Six-month period ended June 30, 2013	2012
	(Unaudited)	
Inventories at the beginning of the period	2,985,805	2,806,409
Plus: Charges of the period		
Raw materials, energy, consumables and other	1,867,398	2,242,550
Services and fees	206,052	221,487
Labor cost	596,968	631,199
Depreciation of property, plant and equipment	176,895	159,575
Amortization of intangible assets	3,659	3,924
Maintenance expenses	109,172	121,007
Allowance for obsolescence	35,274	24,581
Taxes	2,646	3,766
Other	73,938	76,367
	3,072,002	3,484,456
Less: Inventories at the end of the period	(2,697,932)	(2,985,056)
	3,359,875	3,305,809

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5 Selling, general and administrative expenses

(all amounts in thousands of U.S. dollars)	Six-month period ended June 30, 2013	2012
	(Unaudited)	
Services and fees	92,971	111,590
Labor cost	293,781	283,056
Depreciation of property, plant and equipment	9,128	6,770
Amortization of intangible assets	107,290	105,615
Commissions, freight and other selling expenses	312,514	283,841
Provisions for contingencies	18,114	1,453
Allowances for doubtful accounts	26,376	(4,196)
Taxes	83,316	76,080
Other	61,404	66,589
	1,004,894	930,798

6 Financial results

(all amounts in thousands of U.S. dollars)	Six-month period ended June 30, 2013	2012
	(Unaudited)	
Interest income	12,951	15,289
Interest expense	(30,529)	(22,613)
Interest net	(17,578)	(7,324)
Net foreign exchange transaction results	3,953	(11,868)
Foreign exchange derivatives contracts results	3,949	7,513
Other	(10,238)	960
Other financial results	(2,336)	(3,395)
Net financial results	(19,914)	(10,719)

Net foreign exchange transaction results include those amounts that affect the gross margin of certain subsidiaries which functional currencies are different from the U.S. dollar.

7 Dividends distribution

On May 2, 2013 the Company’s Shareholders approved an annual dividend in the amount of $0.43 per share ($0.86 per ADS). The amount approved included the interim dividend previously paid in November 22, 2012 in the amount of $0.13 per share ($0.26 per ADS). The balance, amounting to $0.30 per share ($0.60 per ADS), was paid on May 23, 2013. In the aggregate, the interim dividend paid in November 2012 and the balance paid in May 2013 amounted to approximately $507.6 million.

8 Property, plant and equipment, net

(all amounts in thousands of U.S. dollars)	2013	2012
	(Unaudited)	

Six-month period ended June 30,

Opening net book amount	4,434,970	4,053,653
Currency translation adjustment	(26,719)	(44,949)
Additions	320,348	380,430
Disposals	(6,193)	(6,155)
Increase due to consolidation of joint operations	1,554	-
Transfers	(942)	(887)
Depreciation charge	(186,023)	(166,345)
At June 30,	4,536,995	4,215,747

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9 Intangible assets, net

(all amounts in thousands of U.S. dollars)	2013	2012
	(Unaudited)	
Six-month period ended June 30,		
Opening net book amount	3,199,916	3,375,930
Currency translation adjustment	(800)	(986)
Additions	43,211	20,496
Transfers	942	887
Amortization charge	(110,949)	(109,539)
Disposals	(553)	-
At June 30,	3,131,767	3,286,788

10 Contingencies, commitments and restrictions to the distribution of profits

This note should be read in conjunction with Note 26 to the Company's audited Consolidated Financial Statements for the year ended December 31, 2012.

Commitments

§ A Tenaris company is a party to a contract with Nucor corporation under which it committed to purchase Steel Coils on a monthly basis with deliveries starting in July 2013 until December 2015. As of June 30, 2013 the estimated aggregate amount of the contract at current prices is approximately $656 million.

§ A Tenaris company entered into a contract with Siderar, a subsidiary of Ternium S.A. ("Ternium") for the supply of steam generated at the power generation facility that Tenaris owns in the compound of the Ramallo facility of Siderar. Under this contract, Tenaris is required to provide to Siderar 250 tn/hour of steam through to 2018, and Siderar has the obligation to take or pay this volume. The amount of this gas supply agreement totals approximately $73.1 million.

Restrictions to the distribution of profits and payment of dividends

As of December 31, 2012, equity as defined under Luxembourg law and regulations consisted of:

(all amounts in thousands of U.S. dollars)	
Share capital	1,180,537
Legal reserve	118,054
Share premium	609,733
Retained earnings including net income for the year ended December 31, 2012	22,411,870
Total equity in accordance with Luxembourg law	24,320,194

At least 5% of the Company's net income per year, as calculated in accordance with Luxembourg law and regulations, must be allocated to the creation of a legal reserve equivalent to 10% of the Company's share capital. As of December 31, 2012, this reserve was fully allocated and additional allocations to the reserve are not required under Luxembourg law. Dividends may not be paid out of the legal reserve.

The Company may pay dividends to the extent, among other conditions, that it has distributable retained earnings calculated in accordance with Luxembourg law and regulations.

At December 31, 2012, distributable amount under Luxembourg law totals $23.0 billion, as detailed below:

(all amounts in thousands of U.S. dollars)	
Retained earnings at December 31, 2011 under Luxembourg law	23,024,194
Other income and expenses for the year ended December 31, 2012	(163,720)
Dividends paid	(448,604)
Retained earnings at December 31, 2012 under Luxembourg law	22,411,870
Share premium	609,733
Distributable amount at December 31, 2012 under Luxembourg law	23,021,603

11 Other acquisitions

Acquisition of participation in Usinas Siderúrgicas de Minas Gerais S.A. (“Usiminas”)

On January 16, 2012, Tenaris’s Brazilian subsidiary, Confab acquired 25 million ordinary shares of Usiminas, representing 5.0% of the shares with voting rights and 2.5% of the total share capital. The price paid for each ordinary share was Brazilian reais (“BRL”) 36, representing a total cost to Confab of $504.6 million. Confab financed the acquisition through an unsecured 5-year term loan in the principal amount of $350 million and cash on hand.

This acquisition is part of a larger transaction pursuant to which Ternium, certain of its subsidiaries and Confab joined Usiminas’s existing control group through the acquisition of ordinary shares representing 27.7% of Usiminas’s total voting capital and 13.8% of Usiminas’s total share capital. In addition, Ternium, its subsidiaries and Confab entered into an amended and restated Usiminas shareholders’ agreement with Nippon Steel, Mitsubishi, Metal One and Caixa dos Empregados da Usiminas (“CEU”), an Usiminas employee fund, governing the parties’ rights within the Usiminas control group. As a result of these transactions, the control group, which holds 329.4 million ordinary shares representing the majority of Usiminas’s voting rights, is now formed as follows: Nippon Group 47.2%, Ternium/Tenaris Group 42.4%, and CEU 10.4%. The rights of Ternium and its subsidiaries and Confab within the Ternium/Tenaris Group are governed under a separate shareholders agreement.

On July 25, 2013, Usiminas approved its interim accounts as of and for the six months period ended June 30, 2013, which indicate that revenues, post-tax losses from continuing operations and net assets amounted to $3.169 million, $106 million and $7.426 million, respectively. As of June 30, 2013, the Company’s investment in Usiminas, amounted to $315.3 million.

Tenaris Brazilian subsidiary, Confab, was notified of a lawsuit filed in Brazil by Companhia Siderúrgica Nacional (CSN) and various entities affiliated with CSN against this subsidiary and various subsidiaries of Ternium. The entities named in the CSN lawsuit had acquired a participation in Usiminas in January 2012.

The CSN lawsuit alleges that, under applicable Brazilian laws and rules, the acquirers were required to launch a tag-along tender offer to all minority holders of Usiminas ordinary shares for a price per share equal to 80% of the price per share paid in such acquisition, or BRL28.8, and seeks an order to compel the acquirers to launch an offer at that price plus interest. If so ordered, the offer would need to be made to 182,609,851 ordinary shares of Usiminas not belonging to Usiminas's control group, and Confab would have a 17.9% share in the offer. On March 20, 2013, Confab and other defendants filed their response to the CSN lawsuit. On May 8, 2013 the plaintiffs filed a reply (“réplica”), and on June 12, 2013, Confab and other defendants filed their response thereto (“tréplica”). Tenaris believes that CSN's allegations are groundless and without merit, as confirmed by several opinions of Brazilian counsel and previous decisions by Brazil's securities regulator Comissão de Valores Mobiliários, including a February 2012 decision determining that the above mentioned acquisition did not trigger any tender offer requirement. Accordingly, no provision was recorded in these Consolidated Condensed Interim Financial Statements.

Non controlling interests

During the six-month period ended June 30, 2013, additional shares of certain Tenaris subsidiaries were acquired from non-controlling shareholders for approximately $7.8 million. In 2012 corresponds mainly to the acquisition of the non-controlling interests in Confab, see Note 27 to the Company’s audited Consolidated Financial Statements for the year ended December 31, 2012.

12 Related party transactions

As of June 30, 2013:

- § San Faustin S.A., a Luxembourg public limited liability company (Société Anonyme) (“San Faustin”), owned 713,605,187 shares in the Company, representing 60.45% of the Company’s capital and voting rights.
- § San Faustin owned all of its shares in the Company through its wholly-owned subsidiary Techint Holdings S.à r.l., a Luxembourg private limited liability company (Société à Responsabilité Limitée) (“Techint”).
- § Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation (Stichting) (“RP STAK”) held shares in San Faustin sufficient in number to control San Faustin.

§ No person or group of persons controls RP STAK.

12 Related party transactions (Cont.)

Based on the information most recently available to the Company, Tenaris's directors and senior management as a group owned 0.12% of the Company's outstanding shares.

At June 30, 2013, the closing price of the Ternium's ADSs as quoted on the New York Stock Exchange was $22.63 per ADS, giving Tenaris's ownership stake a market value of approximately $519.8 million. At June 30, 2013, the carrying value of Tenaris's ownership stake in Ternium, based on Ternium's IFRS financial statements was approximately $598.4 million.

Transactions and balances disclosed as with "Associated" companies are those with companies over which Tenaris exerts significant influence or joint control in accordance with IFRS, but does not have control. All other transactions and balances with related parties which are not Associated and which are not consolidated are disclosed as "Other".

The following transactions were carried out with related parties.

	(all amounts in thousands of U.S. dollars)	Six-month period ended June 30,	
		2013	2012
(i)	Transactions	(Unaudited)	
	(a) Sales of goods and services		
	Sales of goods to associated parties	18,192	18,297
	Sales of goods to other related parties	64,192	26,721
	Sales of services to associated parties	8,446	6,707
	Sales of services to other related parties	2,447	2,343
		93,277	54,068
	(b) Purchases of goods and services		
	Purchases of goods to associated parties	169,757	210,400
	Purchases of goods to other related parties	6,898	12,048
	Purchases of services to associated parties	39,061	46,721
	Purchases of services to other related parties	50,864	36,357
		266,580	305,526

	(all amounts in thousands of U.S. dollars)	At June 30, 2013	At December 31, 2012
(ii)	Period-end balances	(Unaudited)	
	(a) Arising from sales / purchases of goods / services		
	Receivables from associated parties	35,555	64,125
	Receivables from other related parties	34,733	20,389
	Payables to associated parties	(41,610)	(86,379)
	Payables to other related parties	(11,969)	(14,123)
		16,709	(15,988)
	(b) Financial debt		
	Borrowings from associated parties	-	(3,909)
	Borrowings from other related parties	(1,589)	(2,212)

	(1,589)	(6,121)

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13 Nationalization of Venezuelan subsidiaries

In May 2009, within the framework of Decree Law 6058, Venezuela’s President announced the nationalization of, among other companies, the Company's majority-owned subsidiaries TAVSA - Tubos de Acero de Venezuela S.A. ("Tavsa") and, Matesi Materiales Siderúrgicos S.A ("Matesi"), and Complejo Siderúrgico de Guayana, C.A ("Comsigua"), in which the Company has a non-controlling interest (collectively, the “Venezuelan Companies").

In July 2009, Decree 6796 was issued, which ordered the acquisition of the Venezuelan Companies' assets and provided that Tavsa's assets would be held by the Ministry of Energy and Oil, while Matesi and Comsigua's assets would be held by the Ministry of Basic Industries and Mining. Decree 6796 also required the Venezuelan government to create certain committees at each of the Venezuelan Companies; each transition committee must ensure the nationalization of each Venezuelan Company and the continuity of its operations, and each technical committee (to be composed of representatives of Venezuela and the private sector) must negotiate over a 60-day period (extendable by mutual agreement) a fair price for each Venezuelan Company to be transferred to Venezuela. In the event the parties failed to reach agreement by the expiration of the 60-day period (or any extension thereof), the applicable Ministry would assume control and exclusive operation of the relevant Venezuelan Company, and the Executive Branch would be required to order their expropriation in accordance with the Venezuelan Expropriation Law. The Decree also specifies that all facts and activities thereunder are subject to Venezuelan law and any disputes relating thereto must be submitted to Venezuelan courts.

In August 2009, Venezuela, acting through the transition committee appointed by the Minister of Basic Industries and Mines of Venezuela, unilaterally assumed exclusive operational control over Matesi, and in November, 2009, Venezuela, acting through PDVSA Industrial S.A. (a subsidiary of Petróleos de Venezuela S.A.), formally assumed exclusive operational control over the assets of Tavsa.

In 2010, Venezuela’s National Assembly declared Matesi’s assets to be of public and social interest and ordered the Executive Branch to take the necessary measures for the expropriation of such assets. In June 2011, Decree 8280 was issued, which orders the expropriation of Matesi’s assets as may be required for the implementation of a state-owned project for the production, sale and distribution of briquettes, and further instructs to commence negotiations and take any actions required for the acquisition of such assets.

Tenaris’s investments in the Venezuelan companies are protected under applicable bilateral investment treaties, including the bilateral investment treaty between Venezuela and the Belgium-Luxembourg Economic Union, and Tenaris continues to reserve all of its rights under contracts, investment treaties and Venezuelan and international law. Tenaris has also consented to the jurisdiction of the International Centre for Settlement of Investment Disputes (“ICSID”) in connection with the nationalization process.

In August 2011, Tenaris and its wholly-owned subsidiary Talta - Trading e Marketing Sociedad Unipessoal Lda (Talta), initiated arbitration proceedings against Venezuela before the ICSID in Washington D.C., pursuant to the bilateral investment treaties entered into by Venezuela with the Belgium-Luxembourg Economic Union and Portugal. In these proceedings, Tenaris and Talta seek adequate and effective compensation for the expropriation of their investment in Matesi. This case was registered by the ICSID on September 30, 2011.

In July 2012, Tenaris and Talta initiated separate arbitration proceedings against Venezuela before the ICSID, seeking adequate and effective compensation for the expropriation of their respective investments in Tavsa and Comsigua. This case was registered by the ICSID on August 27, 2012.

Based on the facts and circumstances described above and following the guidance set forth by IAS 27R, the Company ceased consolidating the results of operations and cash flows of the Venezuelan Companies as from June 30, 2009, and classified its investments in the Venezuelan Companies as financial assets based on the definitions contained in paragraphs 11(c)(i) and 13 of IAS 32.

The Company classified its interests in the Venezuelan Companies as available-for-sale investments since management believes they do not fulfill the requirements for classification within any of the remaining categories provided by IAS 39 and such classification is the most appropriate accounting treatment applicable to non-voluntary dispositions of assets.

13 Nationalization of Venezuelan subsidiaries (Cont.)

Tenaris or its subsidiaries have net receivables with the Venezuelan Companies as of June 30, 2013 for a total amount of approximately $28 million.

The Company records its interest in the Venezuelan Companies at its carrying amount at June 30, 2009, and not at fair value, following the guidance set forth by paragraphs 46(c), AG80 and AG81 of IAS 39.

Edgardo Carlos
Chief Financial Officer