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Tenaris SA Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. And your first question comes from the line of Ole Slorer from Morgan Stanley.

Ole Slorer - Morgan Stanley

Thank you very much. I wonder if we can have some clarifications on some of the pricing trends. I mean if we look at Pipelogix, their prices were definitely down about 2% sequentially or something along those lines and yet your revenue per ton was up 1% against the backdrop of seamless volumes that were down 12% and welded volumes that were up 12%, so I mean this suggest side of very strong pricing power in the very high-end or it indicates that you are doing a little bit better across the board. So, could you help clarify a little bit what's going on there?

Alejandro Lammertyn - Commercial Director

Yes, thank you, this is Alejandro Lammertyn. As you well said there is different pricing for a low-end and high-end, and clearly it is representing... it is not representing our high-end products that have a differential in price that is substantial.

Ole Slorer - Morgan Stanley

So, the price is going up, despite the mix going against your book prices, but, sorry average revenue per ton. Is it all high-end, that's going up, are you doing better in welded than Pipelogix might indicate sequentially or what's going on there?

Unidentified Company Representative

Well, I think we could fairly say that the welded price are low in generic terms, pricing has a seen over the year a downward pace, which has de-accelerated lately but I think it's fair to say that the 10% that we saw over the year is there. Now going forward, we see prices stabilizing, and as indicated I think our overall price in picture reflects a mixed component without a doubt.

Ole Slorer - Morgan Stanley

Okay. So I was little surprised about the flattish guidance for the fourth quarter. So could you talk a little bit about the acquisition of Hydril, the opening up of the Gulf of Mexico? I mean that should drive, I would have imagined some substantial stuff for mix improvements. So, can you talk about how your discussions are going with your alliance, key alliance partners in terms of penetrating the high-end Gulf of Mexico market, is the fourth quarter too early for that or just bring us a little bit up to speed with what's going on there.

Unidentified Company Representative

Well from a US Gulf of Mexico perspective, I would say that we continue to maintain the Hydril presence that we have, remember that Hydril was a very important player in the Gulf of Mexico. That is, it is known over the quarter suffered some operational delays, due to the hurricane precautions that the industry overall has taken. Now, with that said I like to pass it on to Alejandro to comment on some of the actions that we have taken with Hydril in the international market.

Alejandro Lammertyn - Commercial Director

Well, as you know the Hydril presence in the international market has the highest potential but it is a process that will take time. We have put an integrated commercial team in place enhancing the technical sales group. We are reaching the customers with the best combination of integral and threaded and coupled connections. We are convinced that the value propositions that we can provide is aligned or even better than our original expectations. We are promoting the designed wells for deep wells, reinforcing the development of expandable connection that was started by Hydril and entering more and more into horizontal wells and dealing with KOC.

So, far we have obtained some new contracts, we have integrated our offer to KOC with our Tenaris traditional sales with integral connections by Hydril with pipes coming from Tenaris. We have also strengthened our position with Statoil where we were already supplying low [inaudible] and now we are supplying also Hydril connections with our pipes, and in particular, we have just got a project with Reliance in India where we are combining the presence of our joint venture with Maharashtra with cutting pipes in India combined with our Blue threaded uncoupled coming from our traditional means.

Ole Slorer - Morgan Stanley

Okay, thanks for that. But my... and good to hear you are doing well internationally, but my question was actually about the Gulf of Mexico. When can we expect Tenaris to penetrate the deepwater Gulf of Mexico with OCTG on the back of extending the alliance and doing internationally into the Gulf?

Unidentified Company Representative

Well, we are discussing this presently with our customers in the Gulf of Mexico, and I said and I like to again emphasize that Hydril has a very solid position in the Gulf of Mexico already. As we have indicated in prior calls we intent to combine some of that with a Tenaris OCTG as a way of only complimenting our presence but we also intend to sustain our ability to get our connections on third-party bypass well.

Ole Slorer - Morgan Stanley

But in terms of kind of the big fish, I think your times of production into the deepwater Gulf of Mexico, is that the first half next year event or is it too early to assume that you are going to get the benefits of that in that fourth quarter. Is that one of the reasons for your optimism on the first half next year?

Unidentified Company Representative

I think we will see some specific results towards the beginning of next year. We don't anticipate any material changes in the remaining of '07.

Ole Slorer - Morgan Stanley

Okay. Thanks. On the Middle East your sales were down 14% sequentially as you indicated high-end pricing was up. So, could you quantify a little bit, so this suggest the 10% sequential decline in volumes. Would that be the right way to think about it? Of all seamless volumes in to the Middle East?

Unidentified Company Representative

Well, what we have seen in this quarter said by Nigel, we have a softer market in Middle East, particularly, in Saudi and particularly in the low-end. Companies like Aramco are starting to understand their high prices of oil are to stay and that quantity of material, particularly in low end materials are not as problematic as in the past. And in the recent circumstances, they are trying to be more efficient in their supply chain management in long term. We are... this is for the Middle East but at the same time we are seeing that the high price of oil are enhancing explorations in deep gas wells like [inaudible] or the deep gas wells in Kuwait. So, what we are going to see is a softer 2007 the remaining quarter and improvement -- substantial improvement in volume and in mix in 2008.

Unidentified Company Representative

Yes, I would just add something, Ole, I think your calculation is pretty much on the mark. The decline in Saudi Arabia was a little bit more than that but it was compensated by increased activity elsewhere.

Ole Slorer - Morgan Stanley

And how confident do you feel that this is not about you are losing market share but this about an inventory correction?

Unidentified Company Representative

Well, it's a combination of the two factors. We are losing definitely market share in the API segment but we are increasing our presence in the high-end and exploration is increasing in the high-end.

Ole Slorer - Morgan Stanley

And you mentioned that Saudi is picking up, Manifa for example but it is going to be attended next, I mean that's 27,000 just 30,000 foot deep wells. Are there mixed changes now going on in that region that should be, is that part of your prediction of a better for third quarter?

Unidentified Company Representative

Yes, this is our target and we are -- we will have our service material and even CRA is included in those wells.

Germán Curá - North American Area Manager

I think what you are going to see in the future is that you won't see us chasing so much the low grade business in the Middle East, because we are really working in terms of maintaining our low end capacity, so to speak in order to be able to service our local markets and which take a fair amount, and also in order to be able to work within our long term agreements where we are offering the full range of products and pushing really those their rest of the capacity to the high-end and to the high-end market. We don't want to commit too much of the capacity in terms of the low end and then have a problem. In the fourth quarter at the end one of the things that we would affect is in terms of following this strategy because we were expecting a little bit more activity, some of the projects under our long term agreements that were going to use... that are going to the high-end applications and which didn't come true. So, we end up really at the end of the day having this empty space, so to speak which we see -- now we are seeing that these projects are coming on stream and we see the incoming orders coming for the first quarter starting really a big effect or the effect on the first quarter. So, this is why we are seeing the dynamics, but I think you are going to see us losing gradually some market share in the low-end and giving the space, so to speak to some other competitor.

Ole Slorer - Morgan Stanley

But with Manifa coming on and solid gas is tendering now in Qatar for drilling project. Do you think that you can remain... what's the timing of all these quite complicated project, is it first half next year, is it partly or your prediction for better start to the next year?

Unidentified Company Representative

Yes, part is already in our backlog for 2008, part will come during 2008.

Ole Slorer - Morgan Stanley

Okay. So, just finally on cost versus pricing power, you're mentioning a lot of cost pressures but if you transition to a more focused high-end offering, how do you view the outlook for your pricing power relative to cost, are there any new entrants that could penetrate premium market that could prevent you from being opportunistic with pricing relative to your cost structure?

Unidentified Company Representative

Well, in terms of cost, we have managed no, we have seen the results in this quarter to maintain contribution despite of the increasing cost. So, we are maintaining margins and we believe that this will be so in the future with our strategy to dedicate our resources to the high-end.

Ole Slorer - Morgan Stanley

Okay, thank you very much gentlemen.

Operator

And your next question comes from the line of Debby Bob Nicova [ph] from JP Morgan.

Unidentified Analyst

Hi, good morning. I just want to continue the questions that Ole started on the Middle East. I want to get a sense of how comfortable you are with the inventory situation there now? How quickly do you think it's going to work off? And also what are the best ways of checking it, I mean is it something that we are going continue to be surprised by on a company by company basis or is there some way to forecast what that inventory belt is doing?

Unidentified Company Representative

Well, it is something that we can more or less forecast but it's not so easy to do it. Aramco has reduced, as Nigel said, their procurement base on their inventory... based on what they have purchased the last year. Last year was an exceptional year for Aramco by all means. They were worried of lack of supply and then their process that normally takes to get the material in their yard is more or less one year in the tendering process till the moment the material arrives. These process, the lead time was shortend during last year and that's why they are facing this build up. Still they are reducing their procurement now, but still... it will take a little bit of time to reduce their stock. We are seeing Aramco coming stronger in the high-end products as we said in the big project for the deep wells. I am a little bit more cautious on the API until mid next year.

Unidentified Analyst

Okay, and just I guess how does market operates, I mean, I think the beauty of your international business is that usually it is very much direct business to your customers and that one of the things that you offer is just-in-time delivery. Is it possible that the Middle East market moves toward more of this just-in-time delivery, so we eliminate future inventory build up problems?

Unidentified Company Representative

Well this is something that we are discussing, we have been discussing. And as I said as this process of high price of oil is for the long run. They are trying to improve their supply chain and one of bases that may come up is coming... going for a long term agreements as other companies in the Middle East are trying to do.

Germán Curá - North American Area Manager

Debby, this is Germán complimenting. I think that when you see specially last year in terms of Saudi Arabia, it was an exceptional level of volume of purchases. So we don't see going back to those level of purchases in the future because it was an exceptional use to speak.

So it's a special year to compare. I think in terms of our business plan, where we are looking for is... structurally we are going to have lower level of purchases in terms of our Saudi Arabia it is going to be complemented with higher volume, and it is going to be in other parts of the Middle East, and it is going to be from our perspective, from our vision it is going to be complemented with our much richer product mix internally in Saudi Arabia.

So the business model doesn't or at least the expectations or revision doesn't... we don't see it going back to the levels that we have last year in Saudi Arabia. We see a different mix world wide in terms of how we are allocating out production. We see higher sales to other places in the Middle East and we are seeing then our richer product mix in Saudi Arabia. This is more or less the situation we are seeing. But I don't think we would like... we want to great expectations as last year was a stable year in terms of purchasing levels there because it was an exceptional year to compare with.

Unidentified Analyst

Okay. And then just moving onto the North American market and what we are seeing with inventories there. We are seeing continued weakness because of those inventory levels and imports, and we heard the guidance from US, feel that they are going to continue basically cutting back on their tubular as a way to help inventory cycle. I just wanted to get a sense from you what your feel is on the inventory situation in North America right now and what your outlook is?

Germán Curá - North American Area Manager

Well, from an inventory perspective, Debby, this is Germán speaking, we have seen today at the end of the quarter, inventories at around five months slightly less than five months worth of consumption. That when you go back I think is one of a lowest levels we have seen over the last two years. So from that perspective we believe that the inventory position, although they stock in program that we have been industry talking about has somehow level off.

Now the input situation continues to be a concern, our OCTG level in the United States, we still have inputs to a level of about 48%, 47% and well our ability to substitute some of those is what somehow represents the opportunity. We have also talked about some trade actions. I guess it will be important to highlight that yesterday the DOC has decided, preliminary decided to install a 16.5% countervailing duty on Chinese imports for standard line pipe, that is not OCTG yet it was a case file two months ago that some how hint, well a sentiment as to how the behavior is. We are expecting also preliminary determination in Canada and that was or should happen within November and also in Mexico. So I think between now and the end of the year, the imports dimension would probably transition at least important news.

Unidentified Analyst

Okay. And also the another I've mentioned that you have still mentioned on their call was this move in there distribution network because as we know that in North American market heavily relies on intermediaries for distributing the tubulars between the suppliers and the consumers. And that's something that obviously have done us this the problem that we have this year of high inventory level that were unexpected. So, the move towards more of a direct distribution process from supplier to consumer would be welcome. And it seems that's your strategy worldwide except North America. And now within North America with the move of US Steel acquiring Lone Star and the comments that they made on their conference call, they are basically saying that, it seems like they are also trying to move towards this direct distribution network of trying to limit the number of distributors and also trying to increase the made to order shipments for their clients. So, wanted to get a view from you to start something that you are also participating in, if you are also starting to see increased purchases from direct to consumers or is that... if there is something in the pipeline that you are working on in terms of changing that industry's structure?

Unidentified Company Representative

No, no this is a very important for us and it's been a core strategy element of Tenaris globally. I have to say though that in the last few months, we have structured buyback to alliances with Company's like Conoco and Apache for North American. These were the first examples that the North American market has created in terms of multiyear alliances between suppliers and operators. Now with that said though I like to emphasize another piece which for us is important and that is the differences between the North American market vis-à-vis the international market in terms of number of operators.

The market is very automatized, the more than a thousand operators and is conceptually fairly rational to assume that companies like ourselves would be able to structure multiyear alliances with a big consumers with a big operators. At the same time, there are medium to small operators which from a

scale perspective do count on the distribution system to resolve their needs and we believe that it is a genuine function that we see stabilizing going forward.

Unidentified Analyst

That makes sense a bit ... basically the idea is going forward we shouldn't expect to see as big of a swing in inventories because you will have... you and US Steel will have a much better hold over the past customers than you basically had this year.

Unidentified Company Representative

I think that the alliance is very good provides us supplier a little more visibility in terms of operational needs and our international experience is being that, when that is established the ability to optimize the supply chain becomes a real factor. So naturally, this is a new phenomenon, we need to see how it evolves over the year, but this is a course that is already taking place.

Unidentified Analyst

And a quick question on your seamless volumes and the product mix there. I just wanted to understand better what you mean by a decline in product mix, because on the one hand we did have a higher consolidation of Hydril in the quarter three months or two, so that would imply a better mix for seamless because of the higher premium connection in the mix, but I guess on the other hand you said there are few projects that you expecting that didn't come through and those were targeted to the high-end, so I just wanted to see how those two things balance out and if those are the things you are taking into account as part of your seamless mix and also in terms of the outlook for fourth quarter why in particular are we still expecting a soft mix.

Nigel Worsnop - Director, Investor Relations

I think, Debby -- this is Nigel. In this particular quarter, it wasn't, the seamless mix was a very good one. And that you can see that in terms of the strength of the overall pricing that we had, but the problem was the mix between seamless and welded when you reduce the amount of seamless and have more welded, then obviously that affects in a percentage terms, the margins, even if the margin on the seamless themselves were stable.

Unidentified Analyst

No, I understand that I was actually asking about seamless in particular. I thought I read that there was worsening in the mix within seamless; I just wanted to --

Guillermo Noriega - South American Area Manager

No, no in terms of... it's a very... in terms of the fourth quarter, the mix may not be quite as strong in the seamless in the fourth quarter, because of the fact that we have been reserving capacity for some projects, which didn't materialize. And so therefore, the mix would not be... but that's very punctual problem and we are already seeing a very different mix coming into the first half of next year, much stronger mix.

Unidentified Analyst

Okay and one final question just on welded volumes, we saw that the tubular welded volumes increased significantly quarter-over-quarter, is that due to the Latin American business picking up, the Mexico, Venezuela, what's the --

Unidentified Company Representative

You mean the projects?

Unidentified Analyst

No, no, no, I mean the tubular?

Unidentified Company Representative

No I think it is somehow consistent with a Canadian repositioning that is in fact that is coming out of a very, very strong low. With that said, I want to be again clear on the fact that Canada today or during

the quarter had operational levels in the range of 25% to 30% lower than the same quarter last year, so by any means, Canada is not anywhere near I think the level of activity that the industry would have liked to see, but quarter-to-quarter, I think it is fair to say that we are coming out of a very, very strong low and this what translates in a slightly higher volume of seamless sales.

Unidentified Analyst

So what is your operating rate right now in your Canadian operations, utilization rates?

Unidentified Company Representative

Sorry, Debby, could you please repeat that.

Unidentified Analyst

Your capacity utilization rates in your Canadian operations?

Unidentified Company Representative

Well, we, for competitive reasons, Debbie, don't actually comment on specific utilization per plant. Remember that this is a very big system where pipes for specific markets are coming from naturally the domestic mills and some of the mills around our network. What I could say though to provide you at least some guidance there is that during this season we have reduced the level and we have laid off something in the area of about 300 people in both of our Canadian facilities.

Unidentified Analyst

Okay, great. Thank you.

Operator

Your next question comes from the line of Cindy Du from Jefferies & Company.

Cindy Du - Jefferies & Company

Good morning. Follow-up on the Canadian [Technical Difficulty]... 300 that you made of for that year-to-date or integrations for the winter season?

Unidentified Company Representative

Sorry, can you repeat because we are losing the line for some reasons here.

Cindy Du - Jefferies & Company

Can you hear me now?

Unidentified Company Representative

Yes.

Cindy Du - Jefferies & Company

Okay, the 300 employees that were laid off, was, is that year-to-date '07 or in preparations for the upcoming winter season?

Unidentified Company Representative

No. it's in the past, Cindy, and it is consistent with the heavy activity of reduction that we have seen in Canada over the last-year.

Cindy Du - Jefferies & Company

Okay. And then in light of the drilling activity, can you give us a sense of what kind of mix is coming out of the Prudential mill at?

Unidentified Company Representative

While Prudential as you know is by and large concentrated on the production of a non-heat treated OCTG, welded OCTG that is typically used in the western part of Canada, particularly in Alberta for by and large gas drilling.

Cindy Du - Jefferies & Company

Okay so, it's not like you can which is in line pipe -- because the line pipe demand is there?

Unidentified Company Representative

Oh, yes, but remember that Prudential has a range that goes up to 18-inches line pipe wide, there's been some infrastructure build up in Canada on bigger line pipe... pipelines, sorry... BOD pipelines. That is out of our range somehow and the overall flow lines construction in Canada is been naturally also affected by a drastic decrease in the level of drilling.

Cindy Du - Jefferies & Company

Okay. And then can you give us an update on how this quarter on Maverick integration is going. How has the US operations fared against Canadian operations?

Unidentified Company Representative

Well I think from... Maverick US position in perspective, we have completed the integration of Maverick and Hydril. We have a unique based operating base out of Houston today, as we have indicated we closed the old Maverick headquarters in St. Louis, and in generic terms the activity in the US is stable. The market from an operational perspective continuous to show a very decent level of activities probably hasn't grown at the level that industry was expecting at one point, but we still have 17 to 18 operating rigs in the state and that is translating a very rational, reasonable level of activity. The inventories we talked about, we see them today at a low point compared to the last two years and imports continued to be a factor, which we are monitoring very closely.

Cindy Du - Jefferies & Company

Okay. But I have noticed the import levels actually coming down in the past few months and inventories have also improved and so can you give us a sense of when do you think the inflection point will be for pricing. Do you think it will come by the end of this year or is it more few quarters down the line?

Unidentified Company Representative

Well I think it will be probably too optimistic to assume that we will see changes between now and the end of the year, Cindy, the imports have adjusted only slightly down the last couple of months. We need to see how that develops there are element that increase of freight rate and other issues that may be affecting it, but overall I don't believe that in the next two months we are going to be seeing a drastic change.

Cindy Du - Jefferies & Company

And then just two more. With respect to your expectations for higher raw material, labor cost. Can you give us a sense of the magnitude of the expected raw material increase and also in terms of the labor cost through the weak dollar, is there any currency hedging strategies in place?

Ricardo Soler - Chief Financial Officer

This is Ricardo. I would like to comment that we? last quarter we suffered, we have been under pressure with prices in ferroalloys, scarp, pig iron and freight, and also level basically in our mills in Italy and Canada and Japan. And for the future we understand that we are going to continue under pressure, cost pressure basically in pig iron, scrap not slightly not so important in Ferro alloys.

Cindy Du - Jefferies & Company

And how much is -- you expect to increase, is that what's left in inventory or what are you seeing in the stock market right now?

Unidentified Company Representative

We have a FIFO accounting, Cindy, which is basically it's three months delay. Now, I think, also I think I would like to add something is it the perspectives people are talking about the increases in iron ore and coal prices for next year. So, this... if they do materialize will inevitably have an impact on overall cost of steelmaking raw materials going forward.

Unidentified Company Representative

To compliment a little bit, I think as was mentioned here before during the third quarter on the seamless side, for example, we didn't lose margin in terms of the increases in the cost because we were able to recover them in terms of the product mix. We obviously lost margin overall, because of the mix between seamless and welded but if you see seamless, you're going to see that. When you see this moving forward at least to give some general guidance, we are going to continue to have this pressure in the fourth quarter but we see in terms of the first and second quarter of next year, we are going to be able to offset those cost increases in terms of the product mix gains that we see coming forward and we see the recovery of our margin by then.

Cindy Du - Jefferies & Company

Okay. And so just to recap on your seamless product, the margins were maintained, [inaudible] in the welded that guide?

Unidentified Company Representative

Right.

Cindy Du - Jefferies & Company

And then lastly can you just give us an update on the strategy of high grading in seamless capacity, are you getting any traction in getting some of the customer to use welded pipes in place of some of the seamless pipes?

Unidentified Company Representative

Well no, Cindy, I think we from a welded perspective are concentrating our supply by and large in the North American market, by definition the single biggest low-end market in the industry. From a seamless perspective in the North American market we have said that we intend to compliment alliances and so on and so forth, our ability to build both seamless and welded packages, so in the end being able to be in a position to service our customers with our full range of products. But I think it is fair to say that there is a -- from a usage perspective, a distinction between the two. And again North America being the single biggest low-end consumption area and as a result being heavily serviced by welded OCTG.

Cindy Du - Jefferies & Company

So, there are no plans to export some of the Maverick pipe into Mexican and Latin American markets at this time?

Unidentified Company Representative

Well no, not at this point, and it is, in fact, based on the reasons we explained. We are devoted to service a very large North American market that consumes a substantial component of low-end and this is what we see the immediate opportunity.

Cindy Du - Jefferies & Company

Okay. That's all for me. Thanks.

Operator

And your next question comes from the line of Rozas Braneza from Landsbanki Kepler.

Unidentified Analyst

Yes. Hi, good morning it's Rocas Bonaza [ph] from Landsbanki Kepler. A few questions, if I may, coming back to your comments on OCTG. If I understand you correctly, inventory levels have come down from, I don't know, somewhere below 5.5 months now to closer to 5 months. Is that really driven by lower levels in inventory or has that been also related to a change in the shipment pattern and is your confidence in end of the de-stocking now higher than three months ago? On your seamless revenue pattern is that number -- has that number remained stable quarter-on-quarter and coming back to your cost question, how much of your seamless, how much of your production depends on

mini meter route and within your outlook for next year cost, what is your assumption about the price trend for scrap?

Germán Curá - North American Area Manager

Okay, this is Germán Curá. I'll take the first question on inventories in the US. Let me say that inventories in generic terms based on information have come down from about 5.7 months worth of consumption down to slightly, slightly below 5 and I think this is a result of de-stocking program, pretty much deployed by the industry where the result of I think uncertainty about what the gas price was going to be, and the way this could have affected the drilling activity in the US market. Now, we've seen that gas price has more or less stabilized at the levels of \$7, \$7.5. Then we also see that there is a slightly shift to oil drilling and naturally the price of oil is playing a big factor there. It is perhaps difficult to say that we have reached to the end of the de-stocking scheme yet it is important from our perspective to see that the levels today are probably the lower -- low point in the last many quarters.

Unidentified Company Representative

Okay, on the second question regarding the seamless prices, I would just like to say that yes the -- our average price to seamless increased during the quarter and affectively offset the increasing cost. So, the margins remain stable on our seamless pipe products during the quarter. Then on the...

Unidentified Analyst

That was probably... it was mix related I guess, this improvement in average revenue at on quarter-on-quarter.

Unidentified Company Representative

Yes, it was related to the mix. Then regarding the nature of our mills we are electric arc furnace based seamless pipe production, and we are buying a mixture of metallics and every thing we see a little bit the scrap prices have been increasing the pig iron prices have been increasing and going into the fourth quarter.

Unidentified Analyst

And on the outlook, what is your expectation for 2008 in terms of scrap? Are you expecting further advances in the prices here?

Unidentified Company Representative

I think it's too early to say -- comment on the factor yet as you know there are iron ore price negotiations going on which could effect the situation there.

Unidentified Analyst

Okay, thank you.

Operator

Your next question comes from the line Wan Toberos [ph] from Citi.

Unidentified Analyst

Hi. Good morning gentlemen. Most of my question have been answered, I just want to know more clearly, how much of your tube sales were high-end and if you can share with us how much of an improvement you are expecting for next year within that mix?

Unidentified Company Representative

Well, high end sales for the quarter were in the area of about 45%, 44%, 45% and as we have expressed we believe that during '08 that number could go up to 50%. That's of the seamless -- of the seamless pipe volumes.

Unidentified Analyst

Okay. Thank you.

Operator

[Operator Instructions]. And your next question comes from the line of Mark Jason from Aim Investment.

Mark Jason - Aim Investment

Yes. Good morning just one question. I've heard lot about de-stocking and issues with mix but what about competition? Can you please discuss how competition has impacted the quarter and what it look likes going forward for next year?

Unidentified Company Representative

Well, on competition, as we've said in the low-end there is a stronger competition, new supply is coming on the high-end. We still see a good environment and nothing have changed and it's improving for the next year.

Mark Jason - Aim Investment

Can you break that down a little bit more by region?

Unidentified Company Representative

By region. Well, as you know our main areas of focus are on the high-end are in the Middle East and North Sea where we are very strong. We are now coming back strongly in Russia where we are improving our presence in Lukoil and Gazprom. And in the Caspian Sea we are very strong with our relationship with Eni in Kashagan that has been... we have the contract but it has been delayed as you know. On the Middle East, of course, there is higher demand, there is also a portion of low-end that is being under pressure but we will definitely substitute with our high-end products in... as I said in our increase sales in Russia, the Caspian and in the North of Africa where we have a very strong position.

Mark Jason - Aim Investment

So, the impact from competition this quarter was mainly on the low end and you didn't see much impact on the high-end.

Unidentified Company Representative

Correct.

Mark Jason - Aim Investment

And going forward you see much of the same?

Unidentified Company Representative

Yes, what we are seeing is one of the low-end sectors that were still remaining in our backlog was Aramco on the API material that we are going to loosen in the coming years but we will recover with a big amount of volume coming from the high-end. So, we see no impact in our backlog for the future.

Mark Jason - Aim Investment

Thank you very much.

Operator

And there are no further questions at this time. I would now like to turn the call back over to management for closing remarks.

Nigel Worsnop - Director, Investor Relations

Okay. Thank you. And thank you every one for listening to this conference call. We look forward to updating you further in the future. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a wonderful day.

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