vallourec

Press release

2007 ANNUAL RESULTS

Vallourec's results continue to improve in 2007

- **Sales up 10.8% to € 6,141 million**
- **EBITDA up 5.1% to € 1,751 million, representing 28.5% of sales**
- **Net income, Group share, up 7.5% to € 986 million**
- **Proposed dividend: € 7 per share**
- **Plan to deliver annual cost savings in excess of € 200 million**

Boulogne-Billancourt, 4 March 2008 - Vallourec, world leader in the production of seamless steel tubes, today announced its 2007 results. The consolidated financial statements were presented today by Vallourec's Management Board to its Supervisory Board, chaired by Jean-Paul Parayre.

Vallourec's consolidated sales in the fourth quarter of 2007 increased by 13.1% compared with the fourth quarter of 2006, to reach € 1,628.8 million. For the full year, sales increased by 10.8% to a record € 6,140.5 million (+12.5% on a comparable basis[1]).

EBITDA rose by 3.1% to € 438.6 million in the fourth quarter, giving an EBITDA/sales ratio of 26.9%. For the full year 2007, EBITDA increased by 5.1% to € 1,750.8 million, representing 28.5% of sales.

Net income, Group share, increased by 7.2% to € 242.8 million in the fourth quarter and by 7.5% to € 986.2 million for the year as a whole.

[1] after adjustment of 2006 sales to make them comparable with 2007 sales (the main adjustment related to the sale of the precision tubes business to Salzgitter).

Information
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Income statement *(in € million)*	**Q4 2006**	**Q4 2007**	**Change Q4 2007/ Q4 2006**	**2006**	**2007**	**Change 2007 /2006**
Sales	**1,439.9**	**1,628.8**	**+13.1%**	**5,541.8**	**6,140.5**	**+10.8%**
EBITDA	**425.4**	**438.6**	**+3.1%**	**1,665.4**	**1,750.8**	**+5.1%**
As a % of sales	*29.5%*	*26.9%*		*30.1%*	*28.5%*	
Operating income	**386.8**	**406.5**	**+5.1%**	**1,544.8**	**1,622.6**	**+5.0%**
As a % of sales	*26.9%*	*25.0%*		*27.9%*	*26.4%*	
Total net income	**245.7**	**249.3**	**+1.5%**	**999.3**	**1,024.5**	**+2.5%**
As a % of sales	*17.1%*	*15.3%*		*18.0%*	*16.7%*	
Net income, Group share	**226.4**	**242.8**	**+7.2%**	**917.0**	**986.2**	**+7.5%**

Commenting on these results, Pierre Verluca, Chairman of the Management Board, stated:

"Our world leadership positions in dynamic markets have enabled us to achieve good results once again in 2007. Today, faced with the challenges of a weakening dollar and higher raw material prices, we are determined to increase our selling prices and maintain our operating margin at a high level. We are launching an ambitious cost-reduction programme which will generate, in 2010, annual cost-savings of more than € 200 million. This plan is in addition to the benefits we expect to achieve through the consolidation of the three American companies currently being acquired and the start-up, within the next two years, of our new pipe mill in Brazil".

ACTIVITY

The 10.8% sales growth for the full year comprised a consolidation scope effect of -1.5%, a volume effect of +0.1% and a mix/price/currency effect of +12.4%.

In 2007, the Power generation (+23.9%) and Mechanical engineering (+19.2%) markets were the main driving forces behind the Group's strong growth. Sales in Oil & Gas, which were held back by the destocking effect of North American distributors and the weakening of the US dollar, rose by 5.5%.

Sales by market

	2006	*% of 2006 sales*	2007	% of 2007 sales	**Change 2007 /2006**
Oil & Gas	*2,683*	*48.4%*	2,830	46.1%	+5.5%
Power generation	*903*	*16.3%*	1,119	18.2%	+23.9%
Total Energy	***3,586***	***64.7%***	***3,949***	***64.3%***	***+10.1%***
Petrochemicals	*634*	*11.4%*	625	10.2%	-1.4%
Mechanical engineering	*593*	*10.7%*	707	11.5%	+19.2%
Automotive	*463*	*8.4%*	513	8.4%	+10.8%
Other	*266*	*4.8%*	347	5.6%	+30.5%
Total Non-Energy	***1,956***	***35.3%***	***2,192***	***35.7%***	***+12.1%***
Total	***5,542***	***100%***	**6,141**	**100%**	**+10.8%**

In **Oil & Gas,** North American sales were adversely affected as inventory adjustments by distributors, initiated late 2006, continued throughout the year. Against this backdrop, tube selling prices held firm during the first half of the year but were slightly lower in the second half. Outside North America, sales increased whilst prices (in US dollars) remained at satisfactory levels. Worldwide, sales of premium joints, drill pipes and accessories and special line-pipes were good.

Vallourec's **Power generation** activity saw strong sales in Europe as well as in China and the rest of Asia. Selling prices held at high levels whilst the product mix continued to improve due to increased deliveries for more sophisticated coal-fired power plants, which generate higher energy yields with lower CO_2 emissions.

Petrochemicals sales for the full year were again close to the record levels achieved in 2006, and reflect a better geographical distribution (projects in the Middle East and Southeast Asia).

Vallourec's **Mechanical engineering** sales recorded strong annual growth, due to an increase in demand in all mechanical engineering fields in which the Group operates.

Despite the disposal of the precision tubes activities in early July 2007, **Automotive** sales for the year as a whole exceeded 2006 sales due mainly to strong sales in Brazil together with the sales of hollows to precision tube manufacturers for the automotive industry.

The "Structural tubes" activity remained buoyant. These tubes are used mainly in major construction projects (bridges, stadiums, airports, etc.) and are included within the "**Other**" category.

RESULTS

EBITDA increased by 3.1% to € 438.6 million in the fourth quarter. It increased by 5.1% to € 1,750.8 million over the year as a whole, up from € 1,665.4 million last year. As a result of a seasonal effect (maintenance and repair work) and the increase in sales of externally-purchased tubes in nickel alloy and tubes with special coatings (for which the margin is low), the EBITDA/sales ratio for the fourth quarter was 26.9%. For the full year, this ratio stood at 28.5% compared with 30.1% prior year.

Operating costs increased by 10.4% for the full year. This rise was due principally to the sharp increase in purchases consumed (+13.2%).

The effective tax rate was 36.1% compared with 35.4% in 2006. This increase was primarily due to the fact that the results of the disposals of VPS, VCAV and VPE are not deductible for tax purposes.

Total net income for the fourth quarter of 2007 was slightly higher than that of the same period prior year (+1.5% to € 249.3 million). For the full year, it grew by 2.5% to € 1,024.5 million, equivalent to 16.7% of sales compared with 18.0% prior year.

Net income, Group share, increased by 7.2% to € 242.8 million in the fourth quarter and by 7.5% to € 986.2 million over the year as a whole.

Cash flow statement *(in € million*	**Q4 2006**	**Q4 2007**	**2006**	**2007**
Gross cash flow from operations	**278.4**	**305.7**	**1,118.9**	**1,196.3**
Change in gross working capital requirement	-123.9	+67.9	-282.8	-214.4
Gross capital expenditure	-104.3	-153.6	-281.5	-437.7
Financial investments	-61.7	0.0	-94.3	-3.6
Asset disposals	+9.2	+27.3	+26.4	+151.3
Share management programme	0.0	-2.4	0.0	-1.8
Dividends paid	-119.9	-9.1	-239.1	-465.1
Other	+9.0	-40.6	-1.5	-24.0
(Increase)/decrease in net debt	**(113.2)**	**195.2**	**246.1**	**201.0**

Working capital requirement fell slightly during the fourth quarter.

As previously reported, capital expenditure increased significantly, rising by 47% to € 153.6 million in the fourth quarter alone. This took capital expenditure to € 437.7 million for the full year, up 55% over the previous year. Capital expenditure in respect of the new pipe mill in Brazil totalled € 14.5 million for the full year 2007.

The Group received proceeds from asset disposals totalling € 151.3 million during the year. These disposals related mainly to the precision tubes businesses (VPE and the Zeithain plant) sold to Salzgitter, and VPS and VCAV, sold to ArcelorMittal. The Group also paid dividends totalling € 465.1 million.

Vallourec generated positive cash flow during the year (+€ 201 million) thereby improving its net cash position from € 41.4 million at 31 December 2006 to € 242.4 million at 31 December 2007. This will contribute towards financing the Group's development, in particular the capital expenditure in Brazil and the planned acquisition of three companies from Grant Prideco (Atlas Bradford®, TCA® and Tube-Alloy™).

Balance sheet items *(in € million)*	**31/12/2006**	**30/09/2007**	**31/12/2007**
Shareholders' equity (Group share)	2,130.4	2,475.7	**2,707.8**
Shareholders' equity (including minority interests)	2,223.2	2,561.8	**2,789.7**
Net debt	-41.4	-47.2	**-242.4**
Gearing ratio	-1.9%	-1.8%	**-8.7%**

COST-SAVINGS PLAN

To reinforce its competitiveness, the Group has decided to implement a progressive cost-reduction plan at its existing sites, with the aim of achieving annual cost savings of more than € 200 million by 2010.

This plan will involve all of the Group's operational and functional units. For Vallourec, the priority is to focus on equipment utilization rates, improved material consumption and energy savings, in addition to initiatives to reduce purchasing costs and overheads. Other measures will include improving quality, better productivity and additional capital expenditures, which will contribute to effective cost control.

OUTLOOK

For 2008, Vallourec anticipates that its plants will continue to operate at high capacity and produce volumes similar to those of 2007, on a comparable basis.

The Group estimates sales in 2008 will be at least equal to 2007, on a comparable basis.

Despite an economic climate characterized by the weakness of the US dollar and the sharp rise in raw material costs, Vallourec expects its EBITDA/sales ratio to remain at a high level, around 25%, for the first half of 2008.

Against this background, and in the light of the recent surge in iron ore prices, the Group confirms its intention to pass on the impact of changes in the euro/dollar exchange rate and higher raw material costs by increasing its selling prices. The date on which such increases will be applied will depend on the duration and nature of Vallourec's existing commercial commitments.

In the medium term, the cost reductions announced will be in addition to the benefits expected from the new pipe mill in Brazil, particularly in terms of competitiveness. The Group will also benefit from synergies generated with the acquisitions currently in progress in the United States (Atlas Bradford®, TCA® and Tube-Alloy™).

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In the longer term, the outlook in respect of premium seamless tubes remains favourable, particularly in the Oil & Gas and Power generation markets. The Group will continue to implement its strategy and pursue new opportunities for external growth.

Dividend policy

The General Meeting to be held on 4 June 2008 will be asked to approve the payment of an ordinary dividend of € 7 per share for the financial year 2007, which represents a payout ratio of 37,4% of net income, Group share. It will be paid on 18 June 2008.

APPENDICES

Documents accompanying this release:

- Data on production output
- Summary consolidated income statement
- Summary consolidated balance sheet

About Vallourec

Vallourec is a world leader in the production of seamless steel tubes designed primarily for the Oil & Gas and Power generation sectors, and other industrial applications.

Vallourec is listed on the Euronext Paris Eurolist (ISIN code: FR0000120354), is eligible for the deferred settlement system and is included in the following indices: MSCI World Index, Euronext 100 and CAC 40. FTSE classification: engineering and machinery.

Calendar

- 7 May: 2008 first quarter results
- 4 June: Annual General Meeting
- 31 July: 2008 half year results
- 24 September: Investor Day

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APPENDICES

Production output

In the fourth quarter, production output totalled 700.9 thousand tonnes compared with 721.1 thousand tonnes in 2006. For the full year, production output totalled 2,838.4 thousand tonnes compared with 2,880.3 thousand tonnes the previous year. On a comparable basis, production output was slightly higher (+0.7%) in the fourth quarter and virtually stable (+0.1%) for the full year.

In thousands of tonnes	**2006**	**2007**	**∆ 07 / 06**
Q1	726.1	**734.9**	+1.2%
Q2	730.9	**720.8**	-1.4%
Q3	702.2	**681.8**	- 2.9% (1)
Q4	721.1	**700.9**	- 2.8% (2)
Total	**2,880.3**	**2,838.4**	- 1.5% (3)

(1) – 0.3% on a comparable basis
(2) + 0.7% on a comparable basis
(3) + 0.1% on a comparable basis

Summary consolidated income statement

(under IFRS – in € million)

VALLOUREC	2006		2007		Change 2007 / 2006
		as % of sales		*as % of sales*	
Sales	5,541.8		6,140.5		+10.8%
Production taken into inventory	190.5	*3.4%*	97.7	*1.6%*	
Other operating revenues	29.2	*0.5%*	35.2	*0.6%*	+20.5%
Purchases consumed	-2,000.9	*36.1%*	-2,265.6	*36.9%*	+13.2%
Taxes and duties	-58.8	*1.1%*	-56.2	*0.9%*	-4.4%
Payroll costs	-812.7	*14.7%*	-827.0	*13.5%*	+1.8%
Other operating costs	-1,220.5	*22.0%*	-1,339.8	*21.8%*	+9.8%
Net provisions	-3.2	*0.1%*	-34.0	*0.6%*	
EBITDA	1,665.4	*30.1%*	1,750.8	*28.5%*	+5.1%
Depreciation and amortization	-114.3	*2.1%*	-118.0	*1.9%*	+3.2%
Impairment of assets and goodwill	-1.5		-21.1		
Assets disposals and restructuring costs	-4.8		10.9		
OPERATING INCOME	1,544.8	*27.9%*	1,622.6	*26.4%*	+5.0%
FINANCIAL INCOME (LOSS)	-6.6		-29.0		
INCOME BEFORE TAX	1,538.2	*27.8%*	1,593.6	*26.0%*	+3.6%
Income tax	-544.8		-575.3		+5.6%
Share of net income of equity affiliates	5.9		6.2		
TOTAL CONSOLIDATED NET INCOME	999.3	*18.0%*	1,024.5	*16.7%*	+2.5%
NET INCOME, GROUP SHARE	917.0		986.2		+7.5%

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Summary consolidated balance sheet

(under IFRS – in € million)

VALLOUREC					
	31/12/06	31/12/07		31/12/06	31/12/07
Intangible assets	20.5	21.7	Shareholders' equity (1)	2,130.4	2,707.8
Goodwill	87.3	79.9			
Property, plant and equipment	996.7	1,266.0	Minority interests	92.8	81.9
Investments in equity affiliates	55.0	55.0	**Total shareholders' equity**	**2,223.2**	**2,789.7**
Other non-current assets	39.5	43.0			
Deferred tax assets	19.3	26.6	Bank loans and other borrowings	467.4	337.3
Total non-current assets	**1,218.3**	**1,492.2**	Employee benefits	195.2	168.2
			Deferred tax liabilities	75.1	101.8
Inventories and work-in-progress	1,039.3	1,168.7	Other provisions and liabilities	3.6	7.3
			Total non-current liabilities	**741.3**	**614.6**
Trade receivables	1,002.7	1,048.6	Provisions	77.5	80.1
Derivatives - assets	91.0	158.1	Overdrafts and other short-term bank borrowings	380.5	332.8
Other current assets	111.9	142.8	Trade payables	602.4	671.9
			Derivatives - liabilities	26.1	28.1
Cash and cash equivalents	889.3	912.5	Other current liabilities	399.2	405.7
Total current assets	**3,134.2**	**3,430.7**	**Total current liabilities**	**1,485.7**	**1,518.6**
Assets due to be sold	175.6		Liabilities due to be sold	77.9	
TOTAL ASSETS	**4,528.1**	**4,922.9**	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	**4,528.1**	**4,922.9**

Net debt	- 41.4	- 242.4	(1) Of which net income, Group share	917.0	986.2

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