



## Press Release

### 2008 FIRST QUARTER RESULTS

# Vallourec holding up well despite dollar weakness and higher raw material costs

- Sales stable on a comparable basis despite dollar weakness
- EBITDA reaches € 342 million, giving an EBITDA/sales ratio of 24.7%
- Outlook confirmed

*Boulogne-Billancourt, 7 May 2008* - Vallourec, world leader in the production of seamless steel tubes, today announced its results for the first quarter of 2008. The consolidated financial statements were presented today by Vallourec's Management Board to its Supervisory Board, chaired by Jean-Paul Parayre.

In the first quarter of 2008, consolidated sales declined by 4.8% compared with the first quarter of 2007, to € 1,383.6 million. On a comparable basis<sup>(1)</sup>, sales were flat (-0.1%). As anticipated, EBITDA contracted by 19.5% to € 341.8 million, giving an EBITDA/sales ratio of 24.7%. Net income, Group share, decreased by 18.7% in the first quarter, to € 193.3 million.

| Income statement<br>(in € million) | Q1 2007 |                    | Q1 2008        |                    | Change<br>Q1 2008 /<br>Q1 2007 |
|------------------------------------|---------|--------------------|----------------|--------------------|--------------------------------|
|                                    |         | as a % of<br>sales |                | as a % of<br>sales |                                |
| Sales                              | 1,453.9 |                    | <b>1,383.6</b> |                    | -4.8%                          |
| EBITDA                             | 424.6   | 29.2%              | <b>341.8</b>   | <b>24.7%</b>       | -19.5%                         |
| Operating income                   | 395.9   | 27.2%              | <b>310.7</b>   | <b>22.5%</b>       | -21.5%                         |
| Total net income                   | 249.3   | 17.1%              | <b>199.2</b>   | <b>14.4%</b>       | -20.1%                         |
| Net income, Group share            | 237.7   | N/a                | <b>193.3</b>   | <b>N/a</b>         | -18.7%                         |

<sup>(1)</sup> After adjustment of 2007 sales to make them comparable with 2008 sales, taking into account, in particular, the disposal to Salzgitter of the precision tubes businesses (VPE and Zeithain factory) and the disposal to ArcelorMittal of VPS and VCAV.

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#### Information

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

*“Vallourec continues to deliver good performances and to demonstrate its resilience in spite of persistent dollar weakness and a surge in raw material costs. Demand remains robust, and our plants continue to operate at high capacity. The price increases which we have announced are progressively taking effect, making us confident in confirming our outlook.”*

## **ACTIVITY**

The 4.8% decrease in sales compared with the first quarter of 2007 consisted of a deconsolidation effect of -4.7%, a volume effect of -5.0% and a combined mix, price and currency effect of +5.4%. On a comparable basis, sales were flat (-0.1%).

The decline in volumes did not reflect a downturn in overall demand, which remained quite robust, but was attributable in large part to the commissioning of new investments in certain European plants, momentarily limiting production.

Dollar weakness weighed on sales, especially as selling prices remained more or less stable. The product mix, however, continued to improve.

### **Sales by market**

|                         | <b>Q1 2007</b> | <b>% of<br/>Q1 2007<br/>sales</b> | <b>Q1 2008</b> | <b>% of<br/>Q1 2008<br/>sales</b> | <b>Change<br/>Q1 08/<br/>Q1 07</b> |
|-------------------------|----------------|-----------------------------------|----------------|-----------------------------------|------------------------------------|
| Oil & Gas               | 682            | 46.9%                             | 615            | 44.4%                             | -9.8%                              |
| Power generation        | 249            | 17.2%                             | 271            | 19.6%                             | +8.8%                              |
| <b>Total Energy</b>     | <b>931</b>     | <b>64.1%</b>                      | <b>886</b>     | <b>64.0%</b>                      | <b>-4.8%</b>                       |
| Petrochemicals          | 146            | 10.0%                             | 139            | 10.0%                             | -4.8%                              |
| Mechanical engineering  | 180            | 12.4%                             | 185            | 13.4%                             | +2.8%                              |
| Automotive              | 123            | 8.5%                              | 96             | 6.9%                              | -22.0%                             |
| Other                   | 73             | 5.0%                              | 78             | 5.7%                              | +6.8%                              |
| <b>Total Non-Energy</b> | <b>522</b>     | <b>35.9%</b>                      | <b>498</b>     | <b>36.0%</b>                      | <b>-4.6%</b>                       |
| <b>Total</b>            | <b>1,454</b>   | <b>100%</b>                       | <b>1,384</b>   | <b>100%</b>                       | <b>-4.8%</b>                       |

In **Oil & Gas**, first quarter sales were directly impacted by dollar weakness. That said, in North America, business is no longer impacted by the inventory adjustments that affected sales throughout 2007. Nevertheless, selling prices for tubes were still slightly lower than in the prior year period. Outside North America, consumer demand remained strong and deliveries, although down slightly on the first quarter of 2007 due to temporary postponements of orders, remained at satisfactory levels in volume terms. Prices in dollars also remained stable on average.

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**Power generation** sales, after rising fourfold between 2003 and 2007, grew further with activity remaining strong in Europe, China and the rest of Asia. Vallourec continues to improve its market position. Selling prices held at high levels, and the product mix continued to improve.

**Petrochemicals** sales contracted slightly, owing in part to dollar weakness and a slight downturn in Europe. Business trends nonetheless remain favourable, particularly in the United States, the Middle East and Asia.

**Mechanical engineering** sales remained buoyant due to strong demand for cranes, lifting equipment, hydraulic cylinders, axles for trucks, etc. and to an uptrend in selling prices.

**Automotive** sales were directly impacted by consolidation scope effects, and in particular the disposal of the precision tubes businesses early in July 2007 and that of VPS and VCAV in December 2007. In Brazil, which now accounts for the bulk of the automotive activity, performances remained quite satisfactory.

The “Structural Tubes” activity remained robust. These tubes are used mainly in major construction projects (bridges, stadiums, airports, etc.) and are included in the “**Other**” category.

## **RESULTS**

Due in part to dollar weakness and increasing raw material costs, EBITDA contracted by 19.5% in the first quarter of 2008 to € 341.8 million from € 424.6 million a year earlier. The improved product mix meant that the EBITDA/sales ratio nonetheless held up in line with management expectations at 24.7% compared with 29.2% a year earlier.

Operating costs increased by 2.9% due to an 8.0% increase in purchases consumed, chiefly reflecting higher raw material costs, and despite an 8.1% decrease in payroll costs attributable to the disposals made in 2007.

Benefiting from the new tax rate applicable to companies in Germany, the effective tax rate was 32.4% in the first quarter of 2008, much lower than the 36.1% average for full year 2007.

Total net income reached € 199.2 million, which was 20.1% lower than in the first quarter of 2007.

Net income, Group share, declined by 18.7% to € 193.3 million, compared with € 237.7 million in the first quarter of 2007

| <b>Cash flow statement</b><br><i>(in € million)</i> | <b>Q1 2007</b> | <b>Q1 2008</b> |
|-----------------------------------------------------|----------------|----------------|
| <b>Gross cash flow from operations</b>              | 334.5          | <b>198.1</b>   |
| Change in gross working capital requirement         | -183.5         | <b>-68.4</b>   |
| Gross capital expenditure                           | -71.0          | <b>-106.8</b>  |
| Financial investments                               | 0.0            | <b>0.0</b>     |
| Asset disposals                                     | +4.5           | <b>+0.5</b>    |
| Share management programme                          | -2.5           | <b>+0.1</b>    |
| Dividends paid                                      | -10.5          | <b>-3.5</b>    |
| Other                                               | +2.3           | <b>+1.8</b>    |
| <b>(Increase)/decrease in net debt</b>              | 73.8           | <b>21.8</b>    |

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Capital expenditure continued to increase sharply in the first quarter, rising by 50% to € 107 million, of which € 15 million was allocated to the new pipe mill in Brazil.

Vallourec generated positive cash flow in the first quarter (+€ 21.8 million), further improving its net cash position from € 242.4 million at 31 December 2007 to € 264.2 million at 31 March 2008.

| <b>Balance sheet items</b><br><i>(in € million)</i> | <b>31/12/2007</b> | <b>31/03/2008</b> |
|-----------------------------------------------------|-------------------|-------------------|
| Shareholders' equity (Group share)                  | 2,707.8           | <b>2,863.7</b>    |
| Shareholders' equity (including minority interests) | 2,789.7           | <b>2,942.8</b>    |
| Net debt                                            | -242.4            | <b>-264.2</b>     |
| Gearing ratio                                       | -8.7%             | <b>-9.0%</b>      |

## **OUTLOOK**

Vallourec confirms that, on a comparable basis and despite the lower volumes in the first quarter, production volumes for full year 2008 should match the 2007 level, with plants continuing to operate at high capacity.

In addition, the Group maintains its forecast of full-year 2008 sales at least as high as in 2007, on a comparable basis, despite further depreciation of the US dollar since the beginning of March.

Lastly, in spite of dollar weakness and the sharp increase in raw material costs, Vallourec maintains its forecast EBITDA/sales ratio of around 25% for the first half of 2008.

The Group reaffirms its intention to increase selling prices to recover the impact of changes in the euro/dollar exchange rate and the exceptional surge in raw material costs (iron ore, coke, scrap metal and alloys) seen in recent weeks. Successive price increases are being and will continue to be implemented. In view of existing commercial commitments, the effect of these price increases will be progressive.

Furthermore, the positive impact of the cost reductions announced last March, geared to bolstering the Group's competitiveness and generating annual cost savings of more than € 200 million between now and 2010, will begin to take effect this year. Vallourec will also benefit from the acquisitions in the United States of Atlas Bradford<sup>®</sup>, TCA<sup>®</sup> and Tube-Alloy<sup>™</sup>, for which all the regulatory approvals have been granted.

As regards the longer term, the outlook for the Oil & Gas and Power generation markets remains favourable. Vallourec will benefit from the progressive effect of the cost-reduction programme being implemented and the competitiveness of the new pipe mill in Brazil. All of this will help make Vallourec more resistant should dollar weakness persist.

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## **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.

### ***2008 calendar***

- 4 June: Annual General Meeting
- 31 July: 2008 half year results
- 24 September: Investor Day
- 13 November: 2008 third quarter results

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# APPENDICES

## Production output

In the first quarter of 2008, the production output reached 658.1 thousand tonnes compared to 734.9 thousand tonnes in the first quarter of 2007. On a comparable scope basis production was down -5.0%.

| <i>(in thousands of tonnes)</i> | <b>2007</b>    | <b>2008</b>  | <b>Δ 07 / 06</b>             |
|---------------------------------|----------------|--------------|------------------------------|
| <b>Q1</b>                       | 734.9          | <b>658.1</b> | <b>-10.5%</b> <sup>(1)</sup> |
| <b>Q2</b>                       | 720.8          |              |                              |
| <b>Q3</b>                       | 681.8          |              |                              |
| <b>Q4</b>                       | 700.9          |              |                              |
| <b>Total</b>                    | <b>2,838.4</b> |              |                              |

<sup>(1)</sup> -5.0% on a comparable basis

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# Summary consolidated income statement

(under IFRS – in € million)

*Unaudited figures*

| VALLOUREC                                | Q1 2007      | as a %<br>of sales | Q1 2008      | as a %<br>of sales | Change<br>Q1 2008 /<br>Q1 2007 |
|------------------------------------------|--------------|--------------------|--------------|--------------------|--------------------------------|
| Sales                                    | 1,453.9      |                    | 1,383.6      |                    | -4.8%                          |
| Production taken into inventory          | 29.8         | 2.0%               | 46.8         | 3.4%               | +57.0%                         |
| Other operating revenues                 | 6.6          | 0.5%               | 8.4          | 0.6%               | +27.3%                         |
| Purchases consumed                       | -506.6       | 34.8%              | -547.0       | 39.5%              | +8.0%                          |
| Taxes and duties                         | -14.3        | 1.0%               | -13.6        | 1.0%               | -4.9%                          |
| Payroll costs                            | -215.8       | 14.8%              | -198.3       | 14.3%              | -8.1%                          |
| Other operating costs                    | -333.5       | 22.9%              | -341.3       | 24.7%              | +2.3%                          |
| Provisions net of reversals              | 4.5          | -0.3%              | 3.2          | -0.2%              |                                |
| <b>EBITDA</b>                            | <b>424.6</b> | <b>29.2%</b>       | <b>341.8</b> | <b>24.7%</b>       | <b>-19.5%</b>                  |
| Depreciation & amortization              | -30.0        | 2.1%               | -31.1        | 2.2%               | +3.7%                          |
| Impairment of assets and goodwill        | -1.0         |                    |              |                    |                                |
| Asset disposals and restructuring costs  | 2.3          |                    |              |                    |                                |
| <b>OPERATING INCOME</b>                  | <b>395.9</b> | <b>27.2%</b>       | <b>310.7</b> | <b>22.5%</b>       | <b>-21.5%</b>                  |
| FINANCIAL INCOME                         | -14.7        |                    | -17.7        |                    | +20.4%                         |
| <b>INCOME BEFORE TAX</b>                 | <b>381.2</b> | <b>26.2%</b>       | <b>293.0</b> | <b>21.2%</b>       | <b>-23.1%</b>                  |
| Income tax                               | -135.9       |                    | -94.8        |                    | -30.2%                         |
| Share in net income of equity affiliates | 4.0          |                    | 1.0          |                    |                                |
| <b>TOTAL CONSOLIDATED NET INCOME</b>     | <b>249.3</b> | <b>17.1%</b>       | <b>199.2</b> | <b>14.4%</b>       | <b>-20.1%</b>                  |
| <b>NET INCOME, GROUP SHARE</b>           | <b>237.7</b> |                    | <b>193.3</b> |                    | <b>-18.7%</b>                  |

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# Summary consolidated balance sheet

(under IFRS – in € million)

Unaudited figures

| VALLOUREC                        |                |                |                                                   |                |                |
|----------------------------------|----------------|----------------|---------------------------------------------------|----------------|----------------|
|                                  | 31/12/07       | 31/03/08       |                                                   | 31/12/07       | 31/03/08       |
| Intangible fixed assets          | 21.7           | 19.8           | Shareholders' equity <sup>(1)</sup>               | 2,707.8        | 2,863.7        |
| Goodwill                         | 79.9           | 84.4           |                                                   |                |                |
| Property, plant and equipment    | 1,266.0        | 1,288.5        | Minority interests                                | 81.9           | 79.1           |
| Investments in equity affiliates | 55.0           | 53.8           | <b>Total equity</b>                               | <b>2,789.7</b> | <b>2,942.8</b> |
| Other non-current assets         | 43.0           | 40.3           |                                                   |                |                |
| Deferred tax assets              | 26.6           | 21.6           | Bank loans and other borrowings                   | 337.3          | 333.1          |
| <b>Total non-current assets</b>  | <b>1,492.2</b> | <b>1,508.4</b> | Employee benefits                                 | 168.2          | 165.8          |
|                                  |                |                | Deferred tax liabilities                          | 101.8          | 117.6          |
| Inventories and work-in-progress | 1,168.7        | 1,248.1        | Other provisions and liabilities                  | 7.3            | 5.7            |
|                                  |                |                | <b>Total non-current liabilities</b>              | <b>614.6</b>   | <b>622.2</b>   |
| Trade receivables                | 1,048.6        | 1,027.7        | Provisions                                        | 80.1           | 74.7           |
| Derivatives - assets             | 158.1          | 223.2          | Overdrafts and other short-term bank borrowings   | 332.8          | 349.9          |
| Other current assets             | 142.8          | 111.2          | Trade payables                                    | 671.9          | 694.5          |
| Cash and cash equivalents        | 912.5          | 947.2          | Derivatives-liabilities                           | 28.1           | 36.9           |
| <b>Total current assets</b>      | <b>3,430.7</b> | <b>3,557.4</b> | Other current liabilities                         | 405.7          | 344.8          |
|                                  |                |                | <b>Total current liabilities</b>                  | <b>1,518.6</b> | <b>1,500.8</b> |
| <b>TOTAL ASSETS</b>              | <b>4,922.9</b> | <b>5,065.8</b> | <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>4,922.9</b> | <b>5,065.8</b> |
|                                  |                |                |                                                   |                |                |
| Net debt                         | - 242.4        | - 264.2        | <sup>(1)</sup> Net income, Group share            | 986.2          | 193.3          |

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