



***Acquisition of OMSCO:  
a strategic investment  
in the drill pipe market***

**30 August 2005**

# Disclaimer

Some information in this presentation combines historical figures from the Vallourec group, prepared in accordance with International Financial Reporting Standards (IFRS), and OMSCO, prepared in accordance with accounting standards normally used in Canada.

OMSCO financial statements for the year relate to periods ending on 31 December of each year.

This presentation contains forward-looking items that are subject to risks and uncertainties associated with Vallourec's and OMSCO's business activities. These forward-looking items are based on market parameters and other hypotheses, but may differ significantly from future published results.



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# Vallourec, a world leader

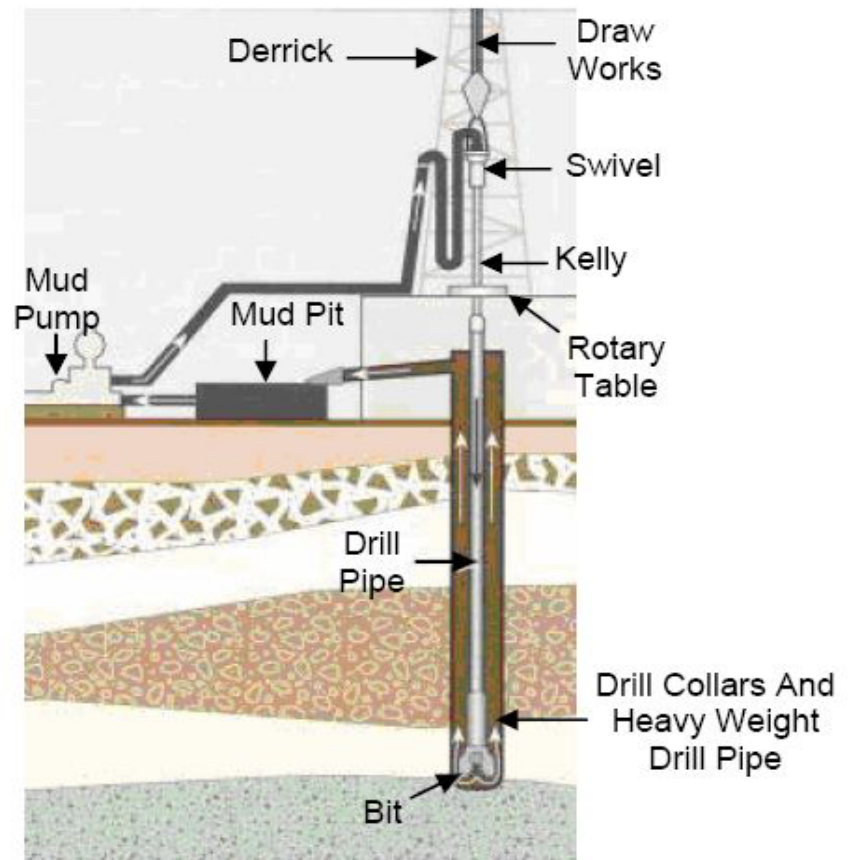
- World leader in the production of seamless steel tubes and specific tubular products for industrial applications, particularly for the energy sector (oil & gas, power generation)
- Industrial facilities in four continents:
  - 27 industrial companies organized in 6 divisions by product or by market
  - 40 production units in 10 countries
  - Approximately 18,000 people
- Long-standing partnerships have reinforced Vallourec's leadership:
  - A historical partnership with Mannesmannröhren-Werke through V & M TUBES (now 100%-owned) helped Vallourec change in dimension from 1997 onwards
  - A 28 year technology partnership in the threading of tubes for the oil & gas industry with the Sumitomo group, also a 19.5% partner in V & M STAR
  - An industrial partnership with Timet via Valtimet (majority-owned by Vallourec with a 51% stake)



# Drilling products

- High value-added products
- The drill pipe is the main component of a drill string. Its consumption is driven by drilling activity
- Drill collars and heavy weight drill pipe are also significant components of drill strings
- Vallourec's drill pipe sales represent 3 to 4% of Group oil & gas revenues
- Drill collars and heavy weight drill pipe are not currently produced by Vallourec

Schematic Of A Rotary Rig



Source: A Primer On Oilwell Drilling, Sixth Edition.





## *Highlights of the transaction*

# Key elements

- Acquisition by V & M TUBES of the assets of OMSCO (a division of ShawCor Ltd) for USD 120 million
- OMSCO is a large manufacturer of drill string components including drill pipe, heavy-weight drill pipe, drill collars and other drilling accessories
- OMSCO is considered as non-core by its parent company ShawCor Ltd
- OMSCO key figures:
  - Average EBITDA 1996-2005e: 17% of sales (highly fluctuating)
  - Sales of USD 50 million in H1 2005
- The acquisition, which is subject to certain conditions, in particular the agreement of the US competition authorities, is expected to be finalized on or about 30 September 2005



# Rationale of OMSCO acquisition

- Acquisition of OMSCO allows Vallourec to develop its buoyant oil & gas business activities at a time when prospects continue to look promising
- A unique opportunity for Vallourec to more than double its drill pipe global market share and consolidate its position amongst the world leaders in drill pipe activity
- A perfect geographical match between OMSCO's business and Vallourec's existing drill pipe business
- An increased US dollar cost base in a US dollar driven market
- Additional volume for V & M TUBES rolling mills
- Accretive impact on earnings per share from year 1
- Significant synergies





***OMSCO,  
a unique opportunity***

# OMSCO profile

- Division of Canadian group ShawCor Ltd
- ShawCor Ltd specializes in coating, inspection and joint protection products for the worldwide pipeline industry
- OMSCO considered as non-core activity of ShawCor, with sales representing approx. 8% of Group's sales in 2004
- Since it joined ShawCor in 1989, OMSCO has been run like a fairly independent division
- OMSCO is mainly active in North America (75% of 2004 sales)
- Manufacturing facilities based in Houston: 4 welding machines, good quality of assets due to recent investments
- Employs approx. 250 people in periods of high activity



# The drill pipe worldwide market

- The North American market represents one third of the world market...

	North Am	China	Russia	ROW	World
% of world market*	33%	26%	18%	23%	100%

...And almost 60% of the market excluding China and Russia which are mainly local markets, with local players or local subsidiaries

	North Am	ROW	Total
% of world market excl. China and Russia*	59%	41%	100%

- Sales to final clients and not through retailers
- Historically, a highly cyclical market

\* Source: Vallourec estimates



# Trends of the drill pipe market

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- Deeper wells (18% of US wells drilled are greater than 10,000 ft\*)
- Directional wells (14% of US drilling activity\*)
- Growing share of the premium segment (high torque): from 4% in 1998 to 27% in 2003 (total drill pipe market excl. China & Russia)

\* Source: Spears & Associates Inc,



# OMSCO acquisition strengthens Vallourec's worldwide position

- OMSCO and V & M TUBES respective positions are highly complementary




Market shares *	North America	Rest of the world excl. China and Russia
Grant Prideco	75%	41%
V & M TUBES	0%	20%
OMSCO	15%	3%
Others	10%	36%

- With the combination of V & M TUBES and OMSCO, Vallourec becomes number 2 in the world, behind Grant Prideco, the undisputed leader in main regions

\* Source: Vallourec estimates






# OMSCO fits well within Vallourec's portfolio

-  OMSCO is a major player in the North American drill pipe market:
  - approx. 75% sales in North America (>15% market share) whereas V & M TUBES is not involved in the North American drill pipe market
-  OMSCO manufactures a complete range of drilling products:
  - in addition to drill pipe (75% of sales in 2004), OMSCO also manufactures other high added-value drilling products, such as drill collars and heavy weight drill pipe
-  OMSCO has developed and marketed a proprietary high torque connection, which is complementary to V & M TUBES high torque products



# Confidence in achieving identified synergies

-  Marketing synergies, particularly in the high torque segment:
  - Vallourec will progressively apply V & M TUBES marketing best practice to OMSCO which will also benefit from V & M TUBES leading position in the worldwide oil & gas industry
  - The high torque segment growth should allow the Group to increase its market share in North America
  
-  Sales of mother tubes which will be supplied by V & M TUBES to OMSCO (from Europe, Brazil and United States)
  
-  Operating cost savings as a result of:
  - OMSCO's investment plan dedicated to improving the productivity of the lathes, the up-setter and the welding lines
  - Sharing of expertise and technical know-how between OMSCO and V & M TUBES production units



# A good timing

- Market prospects are good: volumes in the drill pipe market are in proportion to rig activity of which fundamentals remain solid
- Share of premium segment (high torque) within total sales should continue to increase as a result of drilling activity in more severe conditions



# A fair price

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- A transaction in line with market multiples:
  - ~6x OMSCO 2005e EBITDA
  - ~1x OMSCO 2005e sales
- Financed by existing credit lines
- With an accretive impact from year 1:
  - including benefits from mother tubes provided by V & M TUBES to OMSCO (part of overall synergies), OMSCO consolidated EBITDA margin would be higher than 20% on the basis of current level of performance





## *Conclusion*

# *Acquisition of OMSCO in line with*

## *Vallourec's strategy*

- Develop in activities where prospects continue to look promising such as oil & gas exploration and in regions where demand is strong – like in North America
- Through high value-added products such as drill pipe – especially for premium products
- With manufacturing facilities based in regions where costs are in same currency as sales to protect EBITDA margin exposure to exchange rate fluctuations – i.e. increase US dollar cost base in a US dollar driven market



# ■ *Vallourec maintains its favourable 2005 momentum*

- Completion of acquisition of 100% of V & M Tubes
- A dynamic management including divestment (South America auto components) and investments (production capacity in Brazil; new plant in China)
- Successful capital increase which was set to preserve financial flexibility to seize growth opportunities such as OMSCO
- OMSCO: a beneficial acquisition for Vallourec shareholders

