



Press release

2008 THIRD QUARTER RESULTS

Vallourec achieves better than expected results and revises 2008 guidance upwards

- Q3 sales up 7.6% to € 1,613 million
- EBITDA of € 430 million (+2.1%), giving an EBITDA/sales ratio of 26.7%
- Healthy financial position
- 2008 guidance revised upwards

Boulogne-Billancourt, 13 November 2008 - Vallourec, world leader in the production of seamless steel tubes, today announced its results for the third quarter of 2008. The consolidated financial statements were presented today by Vallourec's Management Board to its Supervisory Board, chaired by Jean-Paul Parayre.

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

“Benefiting from progressive price increases throughout the year and from the recent fall in raw material costs, our results for the third quarter were better than we had anticipated. The combination of these favourable elements enables us to forecast a good fourth quarter and a good start to 2009. Whilst the effect of the deteriorating international financial and economic environment upon our markets remains difficult to quantify, we can rely on our unique premium positioning in seamless tubes, our presence in energy markets whose fundamentals remain sound, our expanding international industrial base, and our increasing competitiveness.”

Information

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OVERVIEW OF RESULTS

In the third quarter of 2008, consolidated sales rose by 7.6% compared with the third quarter of 2007 to € 1,613.4 million. On a comparable basis⁽¹⁾, sales increased by 6.8%. For the first nine months of the year, sales rose by 2.3% to € 4,616.7 million on a reported basis, which corresponds to a 4.6% increase on a comparable basis⁽¹⁾.

EBITDA in the third quarter of 2008 totalled € 430.0 million, giving an EBITDA/sales ratio of 26.7%. In the first nine months, EBITDA reached € 1,202.3 million, equivalent to 26% of sales.

Net income, Group share, totalled € 243.4 million in the third quarter and € 691.8 million in the first nine months.

Income statement <i>(in € million)</i>	Q3 2007	Q3 2008	<i>Change</i>	9m 2007	9m 2008	<i>Change</i>
Sales	1,499.6	1,613.4	+7.6%	4,511.7	4,616.7	+2.3%
EBITDA	421.0	430.0	+2.1%	1,312.2	1,202.3	-8.4%
<i>As a % of sales</i>	28.1%	26.7%		29.1%	26.0%	
Operating income	401.6	378.9	-5.7%	1,216.1	1,080.5	-11.2%
<i>As a % of sales</i>	26.8%	23.5%		27.0%	23.4%	
Total net income	257.5	257.6	0.0%	775.2	720.2	-7.1%
<i>As a % of sales</i>	17.2%	16.0%		17.2%	15.6%	
Net income, Group share	248.0	243.4	-1.9%	743.4	691.8	-6.9%

ACTIVITY

Confirming the trend observed since the beginning of the year, demand remained robust worldwide and across most of the segments served by the Group. Vallourec's plants continued to operate at full capacity.

In the third quarter, production output remained virtually stable on a comparable basis ⁽¹⁾⁽²⁾ (-0.2%) at 672 thousand tonnes compared with 682 thousand tonnes in 2007. For the first nine months of 2008, production shipped remained stable in volume terms on a comparable basis, totalling 2,070 thousand tonnes compared with 2,137 thousand tonnes the previous year.

The 7.6% sales growth in the third quarter consisted of a consolidation scope effect of +0.7%, a volume effect of -0.2% and a combined mix, price and currency effect of +7.0%. In the first nine months, the 2.3% increase in sales consisted of a consolidation scope effect of -2.1% and a combined mix, price and currency effect of +4.6%.

⁽¹⁾ The comparable basis restates 2007 sales to make them comparable with 2008 sales, taking into account the disposals during 2007 and the acquisition of V&M Atlas Bradford, V&M TCA and V&M Tube-Alloy, which have been consolidated as from 16 May 2008.

⁽²⁾ V&M Atlas Bradford, V&M TCA and V&M Tube-Alloy are involved in the premium activities of hot-rolled tubes finishing for the OCTG (Oil Country Tubular goods) market. These activities do not generate any additional hot-rolled tube production.

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Sales by market

	Q3 2007	Q3 2008	Change	9m 2007	9m 2008	Change
Oil & Gas	672	673	+0.1%	2,082	2,022	-2.9%
<i>As a % of sales</i>	44.8%	41.7%		46.1%	43.8%	
Power generation	274	330	+20.4%	792	929	+17.3%
<i>As a % of sales</i>	18.3%	20.5%		17.6%	20.1%	
Sub-total Energy	946	1,003	+6.0%	2,874	2,951	+2.7%
<i>As a % of sales</i>	63.1%	62.2%		63.7%	63.9%	
Petrochemicals	168	200	+19.0%	476	503	+5.7%
<i>As a % of sales</i>	11.2%	12.4%		10.5%	10.9%	
Mechanical engineering	174	189	+8.6%	545	569	+4.4%
<i>As a % of sales</i>	11.6%	11.7%		12.1%	12.3%	
Automotive	111	100	-9.9%	373	290	-22.3%
<i>As a % of sales</i>	7.4%	6.2%		8.3%	6.3%	
Other	101	121	+19.8%	244	304	+24.6%
<i>As a % of sales</i>	6.7%	7.5%		5.4%	6.6%	
Sub-total Non-Energy	554	610	+10.1%	1,638	1,666	+1.7%
<i>As a % of sales</i>	36.9%	37.8%		36.3%	36.1%	
Total	1,500	1,613	+7.6%	4,512	4,617	+2.3%

In **Oil & Gas (41.7% of sales)**, sales in the third quarter of 2008 were stable compared to prior year.

- In the United States, the number of rigs in operation increased (+11% versus Q3 2007). Sales increased as a result of successive price increases and from the consolidation, since mid-May 2008, of V&M Atlas Bradford, V&M TCA and V&M Tube-Alloy, the integration of which is progressing perfectly.

The Group also anticipates a good fourth quarter. A price increase of at least USD 330 per tonne has been applied to deliveries since 1 October and our American plants are operating at full capacity.

In the first half of 2009, despite market anticipation of a reduction in the number of active rigs, and after taking into account an inventory level that remains low (around four months), our customers confirm with us, total requirements in line with those of the second half of 2008. Moreover, as shown by past experience, a weakening in gas production caused by reduced drilling activity would soon result in increased gas prices and thereby a resumption of capital investment.

- In the rest of the world, third quarter sales do not as yet reflect the price increases implemented during 2008. They do, however, reflect the weakness of the US dollar at the time the corresponding orders were placed, seven months earlier.

Today, demand is supported by high levels of drilling activity, with the number of rigs in operation remaining stable. The oil & gas order book outside North America continues to represent around seven months' sales, which assures our plants operating at full capacity

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through the beginning of 2009. Orders placed during the third quarter for delivery in 2009 are at the increased prices.

Beyond this, whilst it is difficult to estimate the impact of the economic slowdown, it is important to bear in mind that our main customers base their investment decisions on a medium/long-term view of their exploration and production requirements. They have not informed us of any reduction in their activity levels, though this situation could evolve during 2009 or 2010.

In **Power generation (20.5% of sales)**, Vallourec achieved growth of 20.4% in the third quarter due to the combined effect of price increases and greater volumes, particularly in South-East Asia, Europe and South Africa.

The power generation market remains buoyant and Vallourec has a very full order book (around seven months), supported by a very good level of new orders in the third quarter. The product mix continues to improve due to the combined requirements for new power plants to increase energy efficiency and reduced CO₂ emissions. The requirements confirmed by our customers involved in power plant construction should ensure a satisfactory level of activity throughout 2009.

Petrochemicals sales (12.4%) increased by 19.3% in the third quarter. Our sales are balanced evenly between maintenance-related demand and new project development. The market is very active in the United States, the Middle East and Asia, where demand is high and prices are rising, whilst it is soft in Europe.

In **Mechanical engineering (11.7%)**, Vallourec's sales rose by 8.5% during the third quarter, boosted mainly by equipment for the energy sector and mining activities (e.g. cranes used in the installation of power plants and hydraulic cylinders for mine props). However, the Group has experienced a decrease in its deliveries for the transport sector (truck axles). Action to reduce inventories of mechanical tubing by European distributors has affected order intake.

Automotive sales (6.2%), which were down 10% in the third quarter, were directly impacted by the disposal of VPS and VCAV in December 2007. In Brazil, which now accounts for two-thirds of the automotive activity, sales were boosted by strong growth in the automotive market, although a downturn is possible in the coming months due to the deterioration of credit conditions for individuals. In Europe, the slowdown in orders is noticeable.

As regards **Other activities (7.5%)**, sales increased by 19.6% during the third quarter, boosted by sales of tubes used in major construction projects (bridges, stadiums, factories, airports, etc.). Nevertheless, we are experiencing a drop in orders in this field.

In total, at the overall Group level, the reduction in demand experienced in certain segments of the non-energy activities enables us, at the end of 2008 and early in 2009, to reallocate our tube mill capacity to the OCTG and power generation markets to better satisfy their requirements.

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RESULTS

EBITDA increased by 2.1% to € 430.0 million in the third quarter, giving an EBITDA/sales ratio of 26.7%. This performance, which exceeds our expectations, was due to our selling price increases and the fall in the scrap metal price. This resulted in an EBITDA/sales ratio of 26% for the first nine months of the year.

Despite the fall in the scrap metal price during the third quarter of 2008, the average level of raw material costs significantly exceeded that of the third quarter of 2007 due to the sharp increases in the first few months of 2008. Overall, the increase in purchases consumed was 20.3% during the third quarter of 2008 and 11.9% during the first nine months.

Total operating costs increased by 6.9% in the third quarter of 2008 and by 1.0% in the first nine months. The changes in payroll costs compared with the same prior year periods reflect for the most part changes in consolidation scope.

The Group is in line with the targets set by its cost reduction plan to reduce annual costs by € 200 million between now and 2010, one-third of which will be achieved in 2008.

Depreciation and amortization charges have increased significantly, mainly due to the North American companies acquired, whose order books are amortized over periods of between five and nine months.

The effective tax rate was 33% in the first nine months of 2008 compared with 36.2% in the first nine months of 2007, benefiting from the new corporate tax rate applicable in Germany.

Total net income, which totalled € 257.6 million in the third quarter, was the same as last year. Net income, Group share, fell by 1.9% to € 243.4 million compared with € 248 million in the third quarter of 2007.

In the first nine months, total net income and net income, Group share, fell by 7.1% and 6.9% respectively.

Cash flow statement *(in € million)*

	Q3 2007	Q3 2008	9m 2007	9m 2008
Gross cash flow from operations	286.1	351.8	890.6	839.0
Change in gross working capital requirement	+37.3	-44.8	-282.3	-216.2
Gross capital expenditure	-116.6	-164.2	-284.1	-370.6
Financial investments	0.0	-15.7	-3.6	-535.6
Asset disposals	+115.8	+0.6	+124.0	+1.8
Share management programme	-6.6	-9.2	+0.6	+3.2
Dividends paid	-435.6	-6.8	-456.0	-386.0
Other	+15.5	-30.9	+16.6	-29.3
(Increase)/decrease in net debt	(104.1)	80.8	5.8	(693.7)

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During the third quarter 2008, the Group generated gross cash flow from operations of € 352 million, up significantly compared to € 289 million generated during the preceding quarter, and € 286 million during the same prior year period.

The increase in working capital requirement in the third quarter of 2008 was due mainly to the fact that raw material costs were higher than in the third quarter of 2007.

Capital expenditure continued to increase sharply in the third quarter, totalling € 164.2 million. For the first nine months, it totalled € 370.6 million, up 30.4% on the same period last year. Of this amount, € 80 million related to the new mill, Vallourec & Sumitomo Tubos do Brasil, in the state of Minas Gerais in Brazil, where work on the plant's foundations is nearing completion.

Other cash outflows in the first nine months included the acquisition of Atlas Bradford®, TCA® and Tube-Alloy™ in the United States (nearly € 520 million during the second quarter) and the payment of the dividend approved by the General Shareholders' Meeting of 4 June.

Balance sheet items <i>(in € million)</i>	31/12/2007	30/06/2008	30/09/2008
Shareholders' equity (Group share)	2,707.8	2,778.0	2,917.5
Shareholders' equity (including minority interests)	2,789.7	2,858.6	3,013.0
Net debt	-242.4	532.1	451.3
Gearing ratio	-8.7%	18.6%	15.0%

The Group's financial position is particularly healthy. Net debt at 30 September was down notably at € 451.3 million compared with € 532.1 million at 30 June, giving a gearing ratio of 15% (compared with 18.6% at 30 June).

At 30 September, the Group's cash exceeded its overdrafts and other short-term bank borrowings by more than € 100 million. More than 94% of the € 558 million bank loans and other borrowings have a maturity in excess of three years. In addition, Vallourec has undrawn confirmed credit lines of around € 950 million with maturities in 2012 and 2013.

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OUTLOOK

Vallourec's plants will continue to operate at full capacity between now and the end of the year. The Group expects its production volume in 2008 to be in line with that of 2007 on a comparable basis⁽¹⁾.

As a result of this excellent activity level and the full effects of the price increases recently implemented, the Group is now forecasting sales growth for the second half of the year of at least 6% as compared with the same period last year, on a comparable basis, i.e. at least € 6,350 million for the full year 2008.

After taking into account these positive factors and the recent fall in the scrap metal price, the Group now expects EBITDA for the second half of the year to exceed the € 772 million achieved in the first half of 2008 by at least € 100 million, which would give a second-half EBITDA/sales ratio of at least 26%.

The outlook for the beginning of 2009 currently appears favourable due to the duration of the order book, the positive effects of the recent price increases and the fall in raw material costs.

Looking further ahead, despite the difficulties to estimate the impact of the economic slowdown on our markets, the Group has confidence in its strengths. The investments and recent acquisitions carried out to strengthen its premium positioning in the energy markets have made Vallourec an undisputed leader, more resilient than in the past. In addition, the programme to deliver annual cost savings of € 200 million by 2010, and the start-up in mid-2010 of the new rolling mill in Brazil, will strengthen the Group's competitiveness and increase its self-sufficiency in steel.

Moreover, Vallourec has a very strong balance sheet and sources of financing that will enable it to sustain its planned capital expenditure and growth policy.

Lastly, Vallourec's technological lead, the flexibility of its industrial equipment, the quality and the implication of its staff and its close relationships with its customers worldwide are additional strengths, which will enable Vallourec to continue to benefit from the growing demand for its premium products, particularly in the dynamic energy markets.

⁽¹⁾ Consolidation scope effect not material for production volume between the second half of 2007 and the second half of 2008.

APPENDICES

Documents accompanying this release:

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

About Vallourec

Vallourec is world leader in the production of seamless steel tubes designed primarily for the Oil & Gas and Power generation sectors, and for 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 2009

- 25 February: release of 2008 annual results
- 13 May: release of 2009 first-quarter results
- 30 July: release of 2009 second-quarter results

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APPENDICES

Production output

In the third quarter of 2008, production output reached 671.6 thousand tonnes compared with 681.8 thousand tonnes in the third quarter of 2007 (-1.5%). On a comparable basis, the level remained virtually stable (-0.2%).

<i>In thousands of tonnes</i>	2007	2008	Δ 08 / 07
Q1	734.9	658.1	-10.5% ⁽¹⁾
Q2	720.8	740.4	+2.7% ⁽²⁾
Q3	681.8	671.6	-1.5% ⁽³⁾
Q4	700.9		
Total	2,838.4		

(1) -5.0% on a comparable basis

(2) +5.3% on a comparable basis

(3) -0.2% on a comparable basis

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Summary consolidated income statement

(under IFRS – in € million)

VALLOUREC	Q3 2007	as a % of sales	Q3 2008	as a % of sales	Change Q3 2008 / Q3 2007
Sales	1,499.6		1,613.4		+7.6%
Production taken into inventory	9.9	0.7%	48.8	3.0%	
Other operating revenues	5.7	0.4%	12.8	0.8%	
Purchases consumed	-560.9	37.4%	-674.9	41.8%	+20.3%
Taxes and duties	-12.7	0.8%	-9.3	0.6%	-26.8%
Payroll costs	-184.7	12.3%	-198.3	12.3%	+7.4%
Other operating costs	-333.2	22.2%	-360.4	22.3%	+8.2%
Provisions net of reversals	-2.7	0.2%	-2.1	0.1%	-22.2%
EBITDA	421.0	28.1%	430.0	26.7%	+2.1%
Depreciation & amortization	-27.9	1.9%	-47.4	2.9%	+69.9%
Impairment of assets and goodwill	1.7		-0.5		
Asset disposals and restructuring costs	6.8		-3.2		
OPERATING INCOME	401.6	26.8%	378.9	23.5%	-5.7%
FINANCIAL INCOME	-7.9		1.7		
INCOME BEFORE TAX	393.7	26.3%	380.6	23.6%	-3.3%
Income tax	-140.3		-122.6		-12.6%
Share in net income of equity affiliates	4.1		-0.4		
TOTAL CONSOLIDATED NET INCOME	257.5	17.2%	257.6	16.0%	0.0%
NET INCOME, GROUP SHARE	248.0		243.4		-1.9%

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Summary consolidated income statement

(under IFRS – in € million)

VALLOUREC	First 9 months 2007	as a % of sales	First 9 months 2008	as a % of sales	Change 9m 2008/ 9m 2007
Sales	4,511.7		4,616.7		+2.3%
Production taken into inventory	96.9	2.1%	88.7	1.9%	-8.5%
Other operating revenues	21.8	0.5%	26.7	0.6%	+22.5%
Purchases consumed	-1,643.3	36.4%	-1,838.7	39.8%	+11.9%
Taxes and duties	-42.1	0.9%	-37.4	0.8%	-11.2%
Payroll costs	-620.6	13.8%	-612.5	13.3%	-1.3%
Other operating costs	-995.2	22.1%	-1,044.0	22.6%	+4.9%
Provisions net of reversals	-17.0	0.4%	2.8	-0.1%	
EBITDA	1,312.2	29.1%	1,202.3	26.0%	-8.4%
Depreciation & amortization	-89.2	2.0%	-118.5	2.6%	+32.8%
Impairment of assets and goodwill	-19.1		-0.5		-97.4%
Asset disposals and restructuring costs	12.2		-2.8		
OPERATING INCOME	1,216.1	27.0%	1,080.5	23.4%	-11.2%
FINANCIAL INCOME	-16.9		-14.8		-12.4%
INCOME BEFORE TAX	1,199.2	26.6%	1,065.7	23.1%	-11.1%
Income tax	-434.6		-351.3		-19.2%
Share in net income of equity affiliates	10.6		5.8		-45.3%
TOTAL CONSOLIDATED NET INCOME	775.2	17.2%	720.2	15.6%	-7.1%
NET INCOME, GROUP SHARE	743.4		691.8		-6.9%

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Summary consolidated balance sheet

(under IFRS – in € million)

VALLOUREC					
	31/12/07	30/09/08		31/12/07	30/09/08
Intangible fixed assets	21.7	262.6	Shareholders' equity ⁽¹⁾	2,707.8	2,917.5
Goodwill	79.9	300.4			
Property, plant and equipment	1,266.0	1,563.0	Minority interests	81.9	95.5
Investments in equity affiliates	55.0	73.8	Total equity	2,789.7	3,013.0
Other non-current assets	43.0	42.8			
Deferred tax assets	26.6	28.3	Bank loans and other borrowings	337.3	557.8
Total non-current assets	1,492.2	2,270.9	Employee benefits	168.2	167.9
			Deferred tax liabilities	101.8	88.0
Inventories and work-in-progress	1,168.7	1,381.1	Other provisions and liabilities	7.3	5.5
			Total non-current liabilities	614.6	819.2
Trade receivables	1,048.6	1,132.2			
Derivatives - assets	158.1	27.1	Provisions	80.1	81.3
Other current assets	142.8	196.3	Overdrafts and other short-term bank borrowings	332.8	432.7
			Trade payables	671.9	688.9
Cash and cash equivalents	912.5	539.2	Derivatives-liabilities	28.1	73.0
			Other current liabilities	405.7	438.7
Total current assets	3,430.7	3,275.9	Total current liabilities	1,518.6	1,714.6
TOTAL ASSETS	4,922.9	5,546.8	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,922.9	5,546.8
Net debt	- 242.4	451.3	⁽¹⁾ Net income, Group share	986.2	691.8

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