



French limited liability company (société anonyme) with a Management Board and a Supervisory Board with share capital of € 212 154 880

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2007 FIRST QUARTER RESULTS

Vallourec, world leader in the production of seamless steel tubes and tubular products for specific industrial applications, today announced its results for the first quarter of 2007. The consolidated financial statements were presented today by Vallourec's Management Board to its Supervisory Board, chaired by Jean-Paul Parayre.

Consolidated sales in the first quarter of 2007 increased by 10.3% to reach a record € 1,453.9 million. EBITDA rose by 10.2% to € 424.6 million, giving an EBITDA/sales ratio of 29.2%, the same as in the first quarter of 2006. Total net income increased from € 233.6 million to € 249.3 million while net income, Group share increased by 11.6% to € 237.7 million.

Unaudited data

Income statement (in € million)	Q1 2006		Q1 2007		Change Q1 2007 / Q1 2006
		as a % of sales		as a % of sales	
Sales	1,318.6		1,453.9		+10.3%
EBITDA	385.3	29.2%	424.6	29.2%	+10.2%
Operating income	359.0	27.2%	395.9	27.2%	+10.3%
Total net income	233.6	17.7%	249.3	17.1%	+6.7%
Net income, Group share	212.9	n/a	237.7	n/a	+11.6%

ACTIVITY

Demand remained strong, other than in the North American market, throughout the first quarter of 2007. Under these favourable conditions, the 10.3% sales growth consisted of a consolidation scope effect of -0.2%⁽¹⁾, a volume effect of +1.2% and a mix/price/currency effect of +9.2%.

Vallourec's plants, which were already operating at very close to full capacity in 2006, generally continued to operate at a similar level.

At the same time, prices stabilized overall compared with the end of the previous year. Nevertheless, in comparison with the first quarter of 2006, the Group benefited from the full effect of the price increases implemented in 2006 for certain high value-added products. Lastly, the Group further enhanced its product mix.

Unaudited data

Sales by market

	Q1 2007 sales (in € million)	Contribution to total sales for Q1 2007	Reminder: contribution to total sales for 2006
Oil and gas	682	46.9%	48.4%
Power generation	249	17.2%	16.3%
Total Energy	931	64.1%	64.7%

Petrochemicals	146	10.0%	11.4%
Mechanical engineering	180	12.4%	10.7%
Automotive	123	8.5%	8.4%
Other	73	5.0%	4.8%
Total Non-Energy	522	35.9%	35.3%
Total	1,454	100%	100%

⁽¹⁾ The consolidation scope effect mainly concerns the acquisition of SMFI, consolidated with effect from 1 April 2006, and the disposal of Spécitubes and Cerec, deconsolidated with effect from 1 April and 1 December 2006 respectively.

In the oil and gas sector, oil companies' exploration and production activities remained buoyant.

In North America, the inventory reductions observed at distributors at the end of 2006 continued in the first quarter. This phenomenon explains the bulk of the decline in quantities of OCTG tubes delivered by Vallourec in this region. In this market, Vallourec's selling prices in dollars remained at the high levels of 2006. Still in the United States, the market for premium joints continued to perform very well, with sales volumes and prices remaining at excellent levels.

Outside the North American market, sales of OCTG tubes and premium joints stabilized at satisfactory levels in terms of both prices and volumes.

Lastly, with regard to other oil activities, sales of drill pipes continued to increase. Sales of special line pipes also posted good performances. By way of illustration, Vallourec signed a contract with Petrobras in March worth \$ 135 million over three years. This contract concerns the Hibrido project and covers the delivery of thick, heat-treated line pipes that will equip and link several deepwater oilfields.

In power generation, Vallourec continued to benefit from strong demand from China, although it was the increase in the number of new and complex projects in Europe and the United States – supercritical and ultra-supercritical coal-fired power plants – that supported the growth in activity.

Compared with the start of 2006, which was boosted by the reconstruction of certain refineries destroyed by the hurricanes that hit the United States in 2005, the petrochemical activity marked time to a certain extent in the first quarter.

By contrast, sales by the mechanical engineering activity increased sharply in an environment still characterized by strong orders in Germany, a market which is fuelled by exports.

Sales of products for the automotive industry stabilized but remained penalized in Europe by the decline in activity at the two main French car manufacturers.

RESULTS

EBITDA increased at the same rate as sales, up 10.2% to € 424.6 million compared with € 385.3 million in the first quarter of 2006. As a result, the EBITDA/sales ratio came to 29.2%, the same level as in the corresponding period of the previous year.

The effective tax rate was 35.7% compared with 33.5% in the first quarter of 2006.

Total net income increased by 6.7% to € 249.3 million, representing 17.1% of sales. Net income, Group share increased by 11.6% to € 237.7 million.

Although capital expenditure remained brisk (€ 71.0 million during the period) and despite a deterioration in working capital requirements, notably due to higher inventories and work-in-progress linked to increased recourse to subcontracting, the Group generated cash flow that enabled it to improve its cash position by € 73.8 million in the first quarter of 2007. Net cash thus stood at € 115.2 million at 31 March 2007 compared with € 41.4 million at 31 December 2006.

Unaudited data
Cash flow statement
(in € million)

	Q1 2006	Q1 2007
Gross cash flow from operations	296.2	334.5
Change in gross working capital requirement	-67.2	-183.5
Gross capital expenditure	-44.3	-71.0
Financial investments	-28.9	0.0
Asset disposals	+1.1	+4.5
Share management programme	0.0	-2.5
Dividends paid	-5.8	-10.5
Other	-8.7	+2.3
(Increase)/decrease in net debt	142.4	73.8

Unaudited data
Balance sheet items
(in € million)

	31/12/2006	31/03/2007
Shareholders' equity (Group share)	2,130.4	2,371.9
Shareholders' equity (including minority interests)	2,223.2	2,465.5
Net debt	-41.4	-115.2
Gearing ratio	-1.9%	-4.7%

OUTLOOK

In the oil and gas sector, demand remains sustained, except for a slowdown in sales of OCTG tubes in the United States. Other than in the North American market, oil and gas order books remain long (eight to nine months). Activity also remains very buoyant for premium joints and high value-added products such as drill pipes and accessories. The power generation market is very robust, with order books again standing at eight to nine months.

As demonstrated by the first-quarter sales, the mechanical engineering market is also extremely healthy and offers bright prospects. The petrochemicals activity is also holding up well, even though, compared with 2006, sales are likely to be affected by a demanding base effect and a consolidation scope effect linked to the sale of Cerec. The automotive activity is relatively stable (excluding the consolidation scope impact of the planned sale of the precision tubes activity).

Vallourec thus confirms that most of the Group's plants should continue to operate at very close to maximum operating capacity and that the gradual enhancement of its product mix will continue, while selling prices are expected to remain stable overall.

Vallourec thus reiterates that, barring any exceptional events and despite the dollar's current weakness, the Group should record sales growth of around 7% to 10% in 2007 (excluding the impact of the planned sale of its precision tubes activity).

Vallourec also confirms that, in the first half of 2007, its EBITDA/sales ratio will remain very high, although just below 30% as a result notably of higher energy and transportation costs and of costs relating to the intensive utilization of production capacity.