

*To be publish on le BALO n°138 of 16 november 2007  
Cf Press release of 14 november at 17 Heures 45*

## VALLOUREC

French limited liability company with a Management Board and a Supervisory Board with share capital of € 212,154,880  
Registered office, 27 av du Gal Leclerc à 92100 Boulogne-Billancourt  
552 142 200 Rcs Nanterre

### 2007 Third quarter results

Consolidated sales in the third quarter of 2007 increased by 8.3% compared with the third quarter of 2006 to reach € 1,499.6 million. For the first nine months, the Group achieved growth of 10.0% (+11.1% on a comparable basis, After restatement of 2006 sales to make them comparable with those of 2007 by taking into account, in particular, the disposal to Salzgitter of the precision tubes activities.).

EBITDA rose by 4.2% to € 421.0 million in the third quarter, giving an EBITDA/sales ratio of 28.1%. For the first nine months, EBITDA increased by 5.8% to € 1,312.2 million, equivalent to 29.1% of sales.

Net income, Group share, increased by 4.2% to € 248.0 million in the third quarter and by 7.6% to € 743.4 million in the first nine months.

Income statements (in € million)	Q3 2006	Q3 2007	Change Q3 2007/ Q3 2006	First 9 months 2006	First 9 months 2007	Change 9 months 2007 /9months 2006
<b>Sales</b>	<b>1,384.6</b>	<b>1,499.6</b>	<b>+8.3%</b>	<b>4,101.9</b>	<b>4,511.7</b>	<b>+10.0%</b>
<b>EBITDA</b> <i>As a % of sales</i>	<b>404.1</b> <i>29.2%</i>	<b>421.0</b> <i>28.1%</i>	<b>+4.2%</b>	<b>1,240.0</b> <i>30.2%</i>	<b>1,312.2</b> <i>29.1%</i>	<b>+5.8%</b>
<b>Operating income</b> <i>As a % of sales</i>	<b>375.5</b> <i>27.1%</i>	<b>401.6</b> <i>26.8%</i>	<b>+7.0%</b>	<b>1,158.0</b> <i>28.2%</i>	<b>1,216.1</b> <i>27.0%</i>	<b>+5.0%</b>
<b>Total net income</b> <i>As a % of sales</i>	<b>258.6</b> <i>18.7%</i>	<b>257.5</b> <i>17.2%</i>	<b>-0.4%</b>	<b>753.6</b> <i>18.4%</i>	<b>775.2</b> <i>17.2%</i>	<b>+2.9%</b>
<b>Net income, Group share</b>	<b>238.0</b>	<b>248.0</b>	<b>+4.2%</b>	<b>690.6</b>	<b>743.4</b>	<b>+7.6%</b>

*Quarterly statements are unaudited. Information for the first nine months of the year has been calculated using audited data (half-year financial statements) and unaudited data (third-quarter figures). Unless otherwise specified, the variations indicated are expressed in comparison with the same period of the previous year.*

### Activity

Demand during the third quarter of 2007 was strong in most markets, apart from the North American OCTG market. With the exception of V & M STAR in the United States, Vallourec's plants continued to operate at a high level. As expected, production during this period was affected by stoppages due to planned seasonal maintenance and repair work.

Production output totalled 681.8 thousand tonnes during the third quarter compared with 702.2 thousand tonnes in the third quarter of 2006. For the first nine months, production output totalled 2,137.5 thousand tonnes compared with 2,159.2 thousand tonnes the previous year. At comparable consolidation scope, production output remained virtually stable – it was down by 0.3% in the third quarter and by 0.2% in the first nine months.

Average selling prices remained at a level comparable to that of the third quarter of 2006 and the Group benefited overall from an enhanced product mix.

The 8.3% sales growth in the third quarter of 2007 consisted of a consolidation scope effect of -2.3% (In the third quarter, the consolidation scope effect related to the disposal of Cerec, deconsolidated with effect from 1 December 2006 and to the disposal of the precision tubes activities (VPE and the Zeithain plant) on 2 July 2007), a volume effect of -0.3% and a mix/price/currency effect of +11.2%. For the first nine months, the 10.0% sales growth consisted of a consolidation scope effect of -1.0% (For the first nine months, the consolidation scope effect related to the acquisition of SMFI, consolidated with effect from 1 April 2006, the disposals of Spécitubes and Cerec, deconsolidated with effect from 1 April and 1 December 2006 respectively, and the disposal of the precision tubes activities (VPE and the Zeithain plant) on 2 July 2007), a volume effect of -0.2% and a mix/price/currency effect of +11.3%.

#### Sales by market

	<i>Q1 2007</i>	<i>Q2 2007</i>	<i>Q3 2007</i>	<b>As % of sales Q3 2007</b>	<b>9 months 2007</b>	<b>As % of sales 9 months 2007</b>
Oil & Gas	682	728	672	44.8%	2,082	46.1%
Power generation	249	269	274	18.3%	792	17.6%
<b>Total Energy</b>	<b>931</b>	<b>997</b>	<b>946</b>	<b>63.1%</b>	<b>2,874</b>	<b>63.7%</b>
Petrochemicals	146	162	168	11.2%	476	10.5%
Mechanical engineering	180	191	174	11.6%	545	12.1%
Automotive	123	139	111	7.4%	373	8.3%
Other	73	69	101	6.7%	244	5.4%
<b>Total Non-Energy</b>	<b>522</b>	<b>561</b>	<b>554</b>	<b>36.9%</b>	<b>1,638</b>	<b>36.3%</b>
<b>Total</b>	<b>1,454</b>	<b>1,558</b>	<b>1,500</b>	<b>100.0%</b>	<b>4,512</b>	<b>100.0%</b>

*Quarterly statements are unaudited. Information for the first nine months of the year has been calculated using audited data (half-year financial statements) and unaudited data (third-quarter figures). Unless otherwise specified, the variations indicated are expressed in comparison with the same period of the previous year.*

In Oil & Gas, sales totalled € 672 million in the third quarter and € 2,082 million for the first nine months.

Tube sales by V & M STAR in the United States, as previously announced on 31 July 2007, were effected at lower selling prices than those of the first two quarters of 2007, although volumes remained about the same. As regards premium joints in North America, prices remained stable and volumes were high.

Outside the United States, demand remained strong across all markets. Except for the seasonal slowdown due to the production stoppages scheduled in August, deliveries of OCTG tubes continued at satisfactory levels and prices in dollars remained stable.

In Power generation, the high level of sales (€ 274 million during the third quarter and € 792 million for the first nine months) reflects the fact that activity remained strong, selling prices held at high levels and there was regular increase in the proportion of higher value-added tubes.

The Petrochemicals activity remained at a good level with sales of € 168 million during the third quarter and € 476 million in the first nine months. Demand remained stable in Europe, fell slightly in the United States after a period of strong activity related to the reconstruction of refineries destroyed by the 2005 hurricanes, and increased in the Middle East and South-East Asia.

Mechanical engineering sales remained high, totalling € 174 million for the third quarter and € 545 million for the first nine months.

Automotive sales totalled € 111 million during the third quarter and € 373 million for the first nine months. The level of automotive sales was lower than in the past due to the disposal of the precision tubes activities.

“Structural tubes” used mainly in major construction projects saw a good level of activity. These tubes are included within the “Other” category.

## Results

EBITDA increased by 4.2% to € 421.0 million in the third quarter of 2007. It increased by 5.8% to € 1,312.2 million over the first nine months, up from € 1,240.0 million last year. After taking into account the seasonal effect due mainly to maintenance and repair work, the EBITDA/sales ratio for the third quarter was lower than that of the first half of 2007 (28.1% compared with 29.6%). For the first nine months, this ratio stood at 29.1% compared with 30.2% last year.

Operating costs increased by 12.4% in the third quarter. This rise was due principally to the sharp increase in purchases consumed (+20.8%). The increase in operating costs over the first nine months was 11.1%.

The effective tax rate was 36.2% for the first nine months compared with 35% for the same period in 2006. It is important to bear in mind that the impairment losses in respect of the assets of VPS and VCAV, which were recognized in the second quarter of 2007, are not deductible for tax purposes.

Total net income remained virtually stable in the third quarter of 2007 compared with the previous year (down 0.4% to € 257.5 million). Over the first nine months, it grew by 2.9% to € 775.2 million, equivalent to 17.2% of sales compared with 18.4% last year.

Net income, Group share, increased by 4.2% to € 248.0 million in the third quarter of 2007 and by 7.6% to € 743.4 million over the first nine months.

<b>Cash flow statement</b> <i>(in € million)</i>	<b>Q3 2006</b>	<b>Q3 2007</b>	<b>First 9 months 2006</b>	<b>First 9 months 2007</b>
<b>Gross cash flow from operations</b>	<b>263.8</b>	<b>286.1</b>	<b>840.5</b>	<b>890.6</b>
Change in gross working capital requirement	-1.6	+37.3	-158.9	-282.3
Gross capital expenditure	-78.7	-116.6	-177.2	-284.1
Financial investments	0.0	0.0	-32.6	-3.6
Asset disposals	+1.1	+115.8	+17.2	+124.0
Share management programme	0.0	-6.6	0.0	+0.6
Dividends paid	-96.0	-435.6	-119.2	-456.0
Other	+8.3	+15.5	-10.5	+16.6
<b>(Increase)/decrease in net debt</b>	<b>96.9</b>	<b>-104.1</b>	<b>359.3</b>	<b>5.8</b>

*Quarterly statements are unaudited. Information for the first nine months of the year has been calculated using audited data (half-year financial statements) and unaudited data (third-quarter figures). Unless otherwise specified, the variations indicated are expressed in comparison with the same period of the previous year.*

Working capital requirement fell slightly during the third quarter.

Capital expenditure increased significantly, rising by 48% to € 116.6 million in the third quarter alone. This took capital expenditure to € 284.1 million in the first nine months of 2007, up 60% over the same period the previous year.

The Group received proceeds from asset disposals totalling € 115.8 million during the quarter. The Group also paid dividends totalling € 435.6 million.

As a result, the Group generated negative cash flow during the quarter (-€ 104.1 million). Its net cash position as at 30 September 2007 remained positive, however, at € 47.2 million, this being a level close to that of the start of the financial year (€ 41.4 million).

<b>Balance sheet items</b> <i>(in € million)</i>	<b>31/12/2006</b>	<b>30/06/2007</b>	<b>30/09/2007</b>
Shareholders' equity (Group share)	2,130.4	2,226.8	<b>2,475.7</b>
Shareholders' equity (including minority interests)	2,223.2	2,319.6	<b>2,561.8</b>
Net debt	-41.4	-151.3	<b>-47.2</b>
Gearing ratio	-1.9%	-6.5%	<b>-1.8%</b>

*Quarterly statements are unaudited. Information for the first nine months of the year has been calculated using audited data (half-year financial statements) and unaudited data (third-quarter figures).*

*Unless otherwise specified, the variations indicated are expressed in comparison with the same period of the previous year.*

## **Outlook**

Second half 2007 : In response to requests from certain Oil & Gas customers, the Group supplies externally-purchased tubes in nickel alloy and tubes with special coatings. These operations, which usually take place on a fairly small scale, but which will be more significant during the fourth quarter, will result in higher sales but will generate only a very small contribution to EBITDA in absolute terms.

As a result, Vallourec estimates that its second-half sales should increase by more than 10% at constant consolidation scope, which is in excess of the 7% to 10% estimate announced at the end of July 2007.

The EBITDA/sales ratio in the second half of 2007 is expected to be very close to the level achieved in the first half, before taking into account seasonal variations and the impact of the supply of low value-added goods described above.

Beyond 2007 : It should be noted that the fall in the US dollar will progressively have a negative impact on the export margins of our European plants.

With the exception of North America, fundamentals in the Oil & Gas market remain positive, reflecting the increase in oil companies' exploration and production requirements. Vallourec's Oil & Gas order books, with the exception of the United States, remain very high (around eight months).

In the United States, demand for premium joints remains strong, and selling prices are holding at high levels.

The Group's drilling activity remains buoyant worldwide.

In Power generation, the market remains buoyant in China as well as in Europe and the United States, with order books standing at eight to nine months. Vallourec expects to continue to benefit from a favourable mix and price effect and excellent visibility.

Petrochemicals is performing well. The Mechanical engineering market is also buoyant and the outlook remains favourable. After stripping out consolidation scope effects, the Automotive sector should be relatively stable, sustained, in particular, by sales in Brazil.

This release is available on 14/11/2007 on Vallourec website with appendices at the address : [http://www.vallourec.fr/uk/actionnaires/information\\_reglementee.asp](http://www.vallourec.fr/uk/actionnaires/information_reglementee.asp)