



A French limited liability Company with Management and Supervisory Boards
and capital of 212,154,880 €
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2008 SECOND QUARTER RESULTS

- **Sales up 6.5% on a comparable basis**
- **EBITDA reaches € 430.5 million, giving an EBITDA/sales ratio of 26.6%**
- **Net income, Group share, down slightly (-1.0%)**

In the second quarter of 2008, consolidated sales rose by 3.9% compared with the second quarter of 2007 to € 1,619.7 million. On a comparable basis(1), sales increased by 6.5%. For the first six months, sales of € 3,003.3 million were virtually flat (-0.3%), which represents a rise of 3.5% on a comparable basis(1).

EBITDA in the second quarter of 2008 totalled € 430.5 million, giving an EBITDA/sales ratio of 26.6%. In the first half, EBITDA reached € 772.3 million, equivalent to 25.7% of sales.

Net income, Group share, totalled € 255.1 million in the second quarter (-1.0%) and € 448.4 million in the first half (-9.5%).

Income statement <i>(in € million)</i>	Q2 2007	Q2 2008	<i>Change</i>	H1 2007	H1 2008	<i>Change</i>
Sales	1,558.2	1,619.7	+3.9%	3,012.1	3,003.3	-0.3%
EBITDA	466.6	430.5	-7.7%	891.2	772.3	-13.3%
<i>As a % of sales</i>	29.9%	26.6%		29.6%	25.7%	
Operating income	418.6	390.9	-6.6%	814.5	701.6	-13.9%
<i>As a % of sales</i>	26.9%	24.1%		27.0%	23.4%	
Total net income	268.4	263.4	-1.9%	517.7	462.6	-10.6%
<i>As a % of sales</i>	17.2%	16.3%		17.2%	15.4%	
Net income, Group share	257.7	255.1	-1.0%	495.4	448.4	-9.5%

(1) After adjusting 2007 sales to make them comparable with 2008 sales, taking into account, in particular, the sale during 2007 of the precision tubes businesses (VPE and Zeithain factory) to Salzgitter and of VPS and VCAV to ArcelorMittal, and the acquisition of Atlas Bradford®, TCA® and Tube-Alloy™, which have been consolidated as from 16 May 2008.

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Confirming the trend observed in the first quarter, demand remained robust worldwide and across most of the segments served by the Group. Vallourec's plants continued to operate at high levels and compensated for the slight fall in volumes in the first quarter.

In the second quarter, production shipped increased by 2.7% (+5.3% on a comparable basis) to 740.4 thousand tonnes compared with 720.8 thousand tonnes in 2007. For the first half of 2008, production shipped totalled 1,398.5 thousand tonnes compared with 1,455.7 thousand tonnes the previous year. It remained virtually stable on a comparable basis.

The 3.9% sales growth in the second quarter consisted of a consolidation scope effect of -2.5%, a volume effect of +5.3% and a combined mix, price and currency effect of +1.1%. In the first half, the slight fall in sales (-0.3%) consisted of a consolidation scope effect of -3.7%, a volume effect of +0.1% and a combined mix, price and currency effect of +3.4%.

Sales by market

	Q2 2007	Q2 2008	Change	H1 2007	H1 2008	Change
Oil & Gas	728	734	+0.8%	1,410	1,349	-4.3%
<i>As a % of sales</i>	46.7%	45.3%		46.8%	44.9%	
Power generation	269	327	+21.6%	518	599	+15.6%
<i>As a % of sales</i>	17.3%	20.2%		17.2%	19.9%	
Sub-total Energy	997	1,061	+6.4%	1,928	1,948	+1.0%
<i>As a % of sales</i>	64.0%	65.5%		64.0%	64.8%	
Petrochemicals	162	163	+0.6%	308	302	-1.9%
<i>As a % of sales</i>	10.4%	10.1%		10.2%	10.1%	
Mechanical engineering	191	195	+2.1%	371	380	+2.4%
<i>As a % of sales</i>	12.3%	12.1%		12.3%	12.7%	
Automotive	139	94	-32.4%	262	190	-27.5%
<i>As a % of sales</i>	8.9%	5.8%		8.7%	6.3%	
Other	69	106	+53.6%	143	184	+28.7%
<i>As a % of sales</i>	4.4%	6.5%		4.8%	6.1%	
Sub-total Non-Energy	561	558	-0.5%	1,084	1,056	-2.6%
<i>As a % of sales</i>	36.0%	34.5%		36.0%	35.2%	
Total	1,558	1,620	+3.9%	3,012	3,003	-0.3%

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In **Oil & Gas**, sales in the second quarter of 2008 were slightly higher than those in the second quarter of 2007. Generally speaking, sales were boosted by the very high level of drilling activity undertaken by oil companies; nevertheless, reported sales were impacted by the weakness of the US dollar.

In the North American market, the number of rigs in operation increased once again: in the US it was 4.2% higher in the first half than the average level for last year and has now reached the record level of more than 1,900 rigs. The volumes delivered by V & M STAR increased during the second quarter, thereby confirming the strong demand from US distributors. Tube selling prices, which had fallen slightly in the second half of 2007, have registered several successive increases and are now up more than USD 880 per tonne since the beginning of 2008. The full effect of these increases will be seen in second-half sales.

In the rest of the world, activity remains well oriented. New orders are starting to benefit from announced price increases and demand is boosted by record levels of drilling activity.

Vallourec's **Power generation** sales continued to increase significantly during the second quarter (+21.6%), resulting in a 15.6% increase for the first six months of the year. This segment of activity remains as robust as ever, particularly in China, but also in the rest of Asia (India, South Korea, Indonesia and Taiwan), Europe, the United States and South Africa.

The price increases implemented by Vallourec in recent months have had a positive effect on sales while the product mix has continued to improve. Within this favourable context, Vallourec continues to build on its market position, particularly with major international customers. Sales in the nuclear sector have also increased.

Petrochemicals sales stabilized in the second quarter (+0.6%). The market is particularly buoyant in the United States, where prices are rising and demand is high, boosted in particular by a number of major refinery modernization projects.

In **Mechanical engineering**, Vallourec's activity levels remained high, with sales more or less stable in the second quarter (+2.1%). Demand for cranes, lifting equipment and hydraulic cylinders remained strong although demand for truck axles fell slightly. Selling prices remain on an upward trend.

Automotive sales, which were down 32.4% in the second quarter, were directly impacted by the disposal of the precision tubes businesses in early July 2007 and that of VPS and VCAV in December 2007. In Brazil, which now accounts for the bulk of the automotive activity, sales were boosted by strong growth in the automotive market.

As regards the **Other** category, sales growth in the second quarter was spectacular (+53.6%), due mainly to sales of tubes used in major construction projects (bridges, stadiums, airports, etc.).

Production output

In the second quarter of 2008, the production output reached 740.4 thousand tonnes compared to 720.8 thousand tonnes in the first quarter of 2007 (+2.7%). On a comparable scope basis production was up 5.3%.

<i>(in thousands of tonnes)</i>	2007	2008	Δ 07 / 06
Q1	734.9	658.1	-10.5% ⁽¹⁾
Q2	720.8	740.4	+2.7% ⁽²⁾
Q3	681.8		
Q4	700.9		
Total	2,838.4		

(1) -5.0% on a comparable basis

(2) +5.3% on a comparable basis

RESULTS

Due in part to dollar weakness and higher raw material costs, EBITDA contracted by 7.7% to € 430.5 million in the second quarter and by 13.3% to € 772.3 million in the first half. The EBITDA/sales ratio for the second quarter reached 26.6%, which enabled the Group to achieve a ratio of 25.7% for the first six months of the year which, although lower than the ratio of 29.6% achieved in the first half of 2007, was in line with Group forecasts.

Operating costs increased by 2.5% in the second quarter due to an increase in raw material costs, offset by the development of other operating costs. In the first half, operating costs rose overall by 2.7%. The changes in payroll costs compared with the same periods last year were generally consistent with the changes in consolidation scope.

The effective tax rate was 33.4% in the first half of 2008 compared with 36.5% in the first half of 2007, benefitting from the new corporate tax rate applicable in Germany.

Total net income in the second quarter of 2008 was slightly lower than in the second quarter of 2007 at € 263.4 million (-1.9%).

Net income, Group share, declined by 1.0% to € 255.1 million compared with € 257.7 million in the second quarter of 2007.

In the first half, total net income and net income, Group share, fell by 10.6% and 9.5% respectively.

Cash flow statement <i>(in € million)</i>	Q2 2007	Q2 2008	H1 2007	H1 2008
Gross cash flow from operations	270.0	289.1	604.5	487.2
Change in gross working capital requirement	-136.1	-103.0	-319.6	-171.4
Gross capital expenditure	-96.5	-99.6	-167.5	-206.4
Financial investments	-3.6	-519.9	-3.6	-519.9
Asset disposals	+3.7	+0.7	+8.2	+1.2
Share management programme	+9.7	+12.3	+7.2	+12.4
Dividends paid	-9.9	-375.7	-20.4	-379.2
Other	-1.2	-0.2	+1.1	+1.6
(Increase)/decrease in net debt	36.1	(796.3)	109.9	(774.5)

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The increase in working capital requirement in the second quarter was due mainly to higher raw material costs.

Capital expenditure continued to increase sharply in the second quarter, totalling € 99.6 million. For the first six months it totalled € 206.4 million, up 23.2% on prior year. Expenditure relating to the new pipe mill in Brazil amounted to € 33 million.

The acquisitions of Atlas Bradford®, TCA® and Tube-Alloy™ represented a cash outflow of nearly € 520 million in the second quarter which, together with the payment of the dividend approved by the General Shareholders' Meeting of 4 June, explains the negative cash flow of nearly € 800 million in the second quarter alone.

The Group had surplus cash (€ 264.2 million) at 31 March 2008. At 30 June it had net debt of € 532.1 million, i.e. 18.6% of shareholders' equity.

Balance sheet items <i>(in € million)</i>	31/12/2007	31/03/2008	30/06/2008
Shareholders' equity (Group share)	2,707.8	2,863.7	2,778.0
Shareholders' equity (including minority interests)	2,789.7	2,942.8	2,858.6
Net debt	-242.4	-264.2	532.1
Gearing ratio	-8.7%	-9.0%	18.6%

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HIGHLIGHTS

The construction of Vallourec & Sumitomo Tubos do Brasil's new plant in the state of Minas Gerais in Brazil is progressing according to schedule. The excavation and site preparation work are nearing completion and work has recently begun on the foundations.

The process of integrating Atlas Bradford®, TCA® and Tube-Alloy™ has got off to a good start. These three US companies were acquired from Grant Prideco in May. The sales teams are coordinating and together, the Group is able to offer a seamless service from a customer viewpoint.

The aim of the cost-reduction plan announced in March is to bolster the Group's competitiveness and generate annual cost savings of more than € 200 million between now and 2010. The plan is progressing according to schedule and the cost savings will begin to take effect this year.

OUTLOOK

In terms of activity, the outlook for the second half of 2008 is good. The US Oil & Gas market is performing very well and Vallourec will benefit in this market from its acquisition of Atlas Bradford®, TCA® and Tube-Alloy™. Outside North America, the Oil & Gas order book represents around seven months' sales, with a notable increase in activity in the North Sea and new orders to equip oil fields in West Africa (for Total and Petrobras).

The Power generation market, in which Vallourec is the world leader, remains very buoyant due to a combination of the increasingly stringent requirements for the reduction of CO2 emissions and the need to replace power plants that are becoming obsolete. The order book remains very healthy at a little over seven months' sales and the product mix is continuing to improve.

The petrochemicals activity is expanding, mechanical engineering is stable at a good level and the structural tubes market remains buoyant.

Vallourec's plants are expected to operate at high capacity and the Group therefore forecasts production volume in the second half of 2008 in line with that of the second half of 2007(1).

The Group stresses that it is continuing to implement selling price increases to offset the sharp rises in raw material costs (iron ore, coke, scrap metal and alloys) seen in recent months and to minimize the impact of movements in the euro/dollar exchange rate. A series of price increases have been implemented, both during the first half and subsequent to the balance sheet date. Given that price increases in the Oil & Gas market outside North America cannot be applied retrospectively to orders already taken by the Group, such increases will not be reflected in the sales figures before first quarter 2009.

The Group forecasts a sales growth rate in the second half close to that achieved in the first half (+3.5%) on a comparable basis(2).

The effect of the dollar's continued weakness on new orders combined with the exceptionally high raw material costs (iron ore, coke, scrap metal and alloys) will have a greater impact on earnings in the second half than in the first half of the year. Moreover, the Group stresses that maintenance operations are seasonal in nature, with the majority of such work being carried out in the second half. Vallourec will, however, benefit from progressive price increases and from the integration of its recent acquisitions in the United States.

Given all the above factors, Vallourec forecasts a second-half EBITDA close to that of the first half in absolute terms, which represents an EBITDA/sales ratio of around 23%.

Longer term, the Group has complete confidence in the outlook offered by the Oil & Gas and Power generation markets in particular. Vallourec will benefit from its cost-reduction programme, the integration of Atlas Bradford®, TCA® and Tube-Alloy™ and the competitiveness of its new pipe mill in Brazil.

(1) Scope effect not significant for production volume between the second half of 2007 and the second half of 2008.

(2) On the same basis as that of the second half of 2008, sales in the second half of 2007 would have totalled € 3,154 million.

2008 calendar

- 24 September: Investor Day
- 13 November: 2008 third quarter results

Legal information

This press release is on web site since 18/08/2008, on Vallourec website : http://www.vallourec.fr/download.asp?url=pub/communiqués_uk/95_C.pdf

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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.

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.

Appendices

Summary consolidated income statement (under IFRS – in € million)

	Q2 2007	as a % of sales	Q2 2008	as a % of sales	Change Q2 2008 / Q2 2007
Sales	1,558.2		1,619.7		+3.9%
Production taken into inventory	57.2	3.7%	-6.9	-0.4%	
Other operating revenues	9.5	0.6%	5.5	0.3%	-42.1%
Purchases consumed	-575.8	37.0%	-616.8	38.1%	+7.1%
Taxes and duties	-15.1	1.0%	-14.5	0.9%	-4.0%
Payroll costs	-220.1	14.1%	-215.9	13.3%	-1.9%
Other operating costs	-328.5	21.1%	-342.3	21.1%	+4.2%
Provisions net of reversals	-18.8	1.2%	1.7	-0.1%	
EBITDA	466.6	29.9%	430.5	26.6%	-7.7%
Depreciation & amortization	-31.3	2.0%	-40.0	2.5%	+27.8%
Impairment of assets and goodwill	-19.8				
Asset disposals and restructuring costs	3.1		0.4		-87.1%
OPERATING INCOME	418.6	26.9%	390.9	24.1%	-6.6%
FINANCIAL INCOME	5.7		1.2		-78.9%
INCOME BEFORE TAX	424.3	27.2%	392.1	24.2%	-7.6%
Income tax	-158.4		-133.9		-15.5%
Share in net income of equity affiliates	2.5		5.2		
TOTAL CONSOLIDATED NET INCOME	268.4	17.2%	263.4	16.3%	-1.9%
NET INCOME. GROUP SHARE	257.7		255.1		-1.0%

	H1 2007	as a % of sales	H1 2008	as a % of sales	Change H1 2008 / H1 2007
Sales	3,012.1		3,003.3		-0.3%
Production taken into inventory	87.0	2.9%	39.9	1.3%	
Other operating revenues	16.1	0.5%	13.9	0.5%	-13.7%
Purchases consumed	-1,082.4	35.9%	-1,163.8	38.8%	+7.5%
Taxes and duties	-29.4	1.0%	-28.1	0.9%	-4.4%
Payroll costs	-435.9	14.5%	-414.2	13.8%	-5.0%

Other operating costs	-662.0	22.0%	-683.6	22.8%	+3.3%
Provisions net of reversals	-14.3	0.5%	4.9	-0.2%	
EBITDA	891.2	29.6%	772.3	25.7%	-13.3%
Depreciation & amortization	-61.3	2.0%	-71.1	2.4%	+16.0%
Impairment of assets and goodwill	-20.8				
Asset disposals and restructuring costs	5.4		0.4		-92.6%
OPERATING INCOME	814.5	27.0%	701.6	23.4%	-13.9%
FINANCIAL INCOME	-9.0		-16.5		+83.3%
INCOME BEFORE TAX	805.5	26.7%	685.1	22.8%	-14.9%
Income tax	-294.3		-228.7		-22.3%
Share in net income of equity affiliates	6.5		6.2		
TOTAL CONSOLIDATED NET INCOME	517.7	17.2%	462.6	15.4%	-10.6%
NET INCOME, GROUP SHARE	495.4		448.4		-9.5%

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**Summary consolidated balance sheet
(under IFRS – in € million)**

	31/12/07	30/06/08		31/12/07	30/06/08
Intangible fixed assets	21.7	255.0	Shareholders' equity ⁽¹⁾	2,707.8	2,778.0
Goodwill	79.9	274.2			
Property, plant and equipment	1 266.0	1 461.3	Minority interests	81.9	80.6
Investments in equity affiliates	55.0	58.8	Total equity	2,789.7	2,858.6
Other non-current assets	43.0	45.3			
Deferred tax assets	26.6	17.0	Bank loans and other borrowings	337.3	530.7
Total non-current assets	1,492.2	2,111.6	Employee benefits	168.2	168.2
			Deferred tax liabilities	101.8	110.6
Inventories and work-in-progress	1,168.7	1,332.4	Other provisions and liabilities	7.3	5.2
			Total non-current liabilities	614.6	814.7
Trade receivables	1,048.6	1,136.6	Provisions	80.1	82.3
Derivatives - assets	158.1	150.2	Overdrafts and other short-term bank borrowings	332.8	511.3
Other current assets	142.8	202.3	Trade payables	671.9	721.0
			Derivatives-liabilities	28.1	22.7
Cash and cash equivalents	912.5	509.9	Other current liabilities	405.7	432.4
Total current assets	3,430.7	3,331.4	Total current liabilities	1,518.6	1,769.7
TOTAL ASSETS	4,922.9	5,443.0	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,922.9	5,443.0
Net debt	- 242.4	532.1	⁽¹⁾ Net income, Group share	986.2	448.4

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