



Press Release

Vallourec reports Q1 2009 results

- Moderate decrease of sales at € 1,313 million (- 5.1% vs Q1 08)
- EBITDA margin up at 25.8% of sales (vs 24.7% in Q1 08)
- Adapting production and costs to market slowdown
- Strong cash flow generation (€ 320 million)
- Capex maintained for strategic projects

Boulogne-Billancourt, 13 May 2009 - Vallourec, world leader in the production of seamless steel tubes, today announced its results for the first quarter of 2009.

Vallourec's results during Q1 2009 showed good resilience in a fast declining environment. In the first quarter of 2009, consolidated sales amounted to €1,313.1 million, down 5.1% compared to prior year. EBITDA remained stable at €339.3 million (-0.7%), giving an EBITDA/sales ratio of 25.8%, above the level of Q1 2008 (24.7%). The Group continued to generate strong operating cash flow (€ 320.1 million) and net debt was reduced by € 152.7 million to € 193.8 million. Net income, Group share, amounted to € 187.2 million, down 3.2% compared to prior year.

Commenting on these results, Philippe Crouzet, Chairman of the Management Board, stated:

"Although most markets are now engaged in a declining trend, Vallourec reported resilient results for the first quarter of 2009, thanks to the strength of our backlog coming out of 2008 and the cost reduction measures being implemented. The current recessionary environment is creating a significant reduction in demand, both in industrial activity and in the energy markets worldwide.

We continue to adapt our production and costs in line with the activity. The Group's strong balance sheet and cash-flow generation enable us to pursue strategic investments, aiming at improving competitiveness and preparing for future growth opportunities."

Information

Quarterly statements are unaudited.

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

Income statement <i>(in € million)</i>	Q1 2008	% of sales	Q1 2009	% of sales	% Change
Sales	1,383.6		1,313.1		-5.1%
EBITDA	341.8	24.7%	339.3	25.8%	-0.7%
Operating income	310.7	22.5%	288.2	21.9%	-7.2%
Total net income	199.2	14.4%	202.9	15.5%	1.9%
Net income, Group share	193.3		187.2		-3.2%

ACTIVITY

As a result of weaker demand, particularly in the non-energy segments, sales volume of rolled tubes in Q1 2009 totalled 488 thousand metric tonnes, down 25.8% compared to Q1 2008, and down 29.9% compared to Q4 2008.

The decrease in sales compares favourably to the volume decline, thanks to prices increases and a favourable product mix : the decrease in sales was 5.1% compared with the first quarter of 2008, resulting from a negative volume effect (-25.8%), partly offset by positive effects from scope (+2.9%), currency (+1.6%), and price and mix (combined effect of +22.3%). Compared to Q4 2008, the decrease in sales was 27.8%.

Sales by market

<i>(In € million)</i>	Q1 2008	% of Q1 2008 sales	Q1 2009	% of Q1 2009 sales	Change Q1 09/ Q1 08
Oil & Gas	615	44.4%	653	49.7%	6.2%
Power generation	271	19.6%	299	22.7%	10.3%
Total Energy	886	64.0%	952	72.4%	7.4%
Petrochemicals	139	10.0%	140	10.7%	0.7%
Mechanical engineering	185	13.4%	129	9.8%	-30.3%
Automotive	96	6.9%	44	3.4%	-54.2%
Other	78	5.7%	48	3.7%	-38.5%
Total Non-Energy	498	36.0%	361	27.6%	-27.5%
Total	1,384	100%	1,313	100%	-5.1%

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In **Oil & Gas**, Q1 2009 sales were up 6.2% versus Q1 2008 as the price increases implemented in 2008 offset lower volumes delivered during the quarter.

- In the United States, sales were up compared to prior year, benefiting from higher average prices, combined with the integration of the companies acquired in May 2008. Nevertheless, the sharp decline in gas prices, which on average during Q1 2009 were 30% below Q4 2008, resulted in a rapid fall in drilling activity. OCTG apparent demand declined particularly during the second part of the quarter, reducing activity and increasing pressure on prices. Distributor inventories rose to high levels relative to current and foreseeable consumption.
- In the rest of the world, the order backlog ensured a good level of activity in Q1. However, the demand for OCTG is declining as drilling activity is reduced in response to the fall in oil prices. This is particularly the situation amongst independent oil companies, whilst majors and national oil companies maintain their cautious approach, limiting order volumes.

In **Power generation**, Q1 2009 sales were up 10.3% compared to Q1 2008, benefiting from a good order book. Strong sales in Europe and South Africa more than offset the anticipated decline in sales to China. Pre-material surcharges were reduced relative to their peak in 2008, in line with lower raw material costs.

The recessionary environment is leading to a reduction in new orders. Despite the need to replace obsolete facilities, many new projects for coal-fired power plants are under review, as electricity providers re-evaluate the alternative economics of life extension, gas-fired combined cycle and other options. In China, new orders of tubes for coal-fired power plants have slowed down, as projects have been delayed and inventories held by Chinese boiler makers are high.

Demand for special tubes for nuclear power plants, however, has increased thanks to new projects and retrofitting of existing capacity.

In **Petrochemicals, Mechanical engineering, Automotive, and "Other"**, the downturn of the overall economy, which had already impacted sales during the fourth quarter of 2008, continued throughout Q1 2009. Low demand was accentuated by measures to reduce inventories held by both clients and distributors. In Europe, these sectors are also facing increased competition from Chinese imports, which since 7 April 2009, are subject to provisional anti-dumping duties.

RESULTS

EBITDA for Q1 2009 was stable at € 339.3 million, compared to € 341.8 million in Q1 2008, resulting in an EBITDA / sales margin of 25.8%, above the prior year margin of 24.7%. This performance was primarily due to price levels higher than in Q1 2008 and to a reduction in costs offsetting the negative impact of lower volumes produced and delivered.

On a sequential basis (Q1 2009 compared to Q4 2008), total operating costs decreased by € 382 million (-28.1%) in line with activity (-29.9%). Purchases consumed decreased by € 257 million (37.4%) while all other costs, including personnel costs, decreased by € 125 million (-18.5%), reflecting the flexibility of the Group's cost structure.

Total net income in Q1 2009 reached € 202.9 million, which was marginally higher than prior year (€ 199.2 million). Net income, Group share, declined by 3.2% to € 187.2 million, compared with € 193.3 million in Q1 2008.

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Cash flow statement <i>(in € million)</i>	Q1 2008	Q1 2009
Gross cash flow from operations	198.1	296.7
Change in gross WCR [+ decrease, - increase]	-68.4	23.4
Operating cash flows	129.7	320.1
Gross capital expenditure	-106.8	-126.8
Financial investments	0.0	-8.5
Dividends paid	-3.5	-22.6
Asset disposals & other elements	2.4	-9.5
Change in net debt [+ decrease / - increase]	+21.8	+152.7

The Group generated a strong level of cash flow from operations during the quarter. Working capital requirement started to be adjusted during Q1 2009 and measures are being taken to continue reducing it in line with the lower activity.

The operating cash flow enabled the Group to finance its investments, with capital expenditure of € 126.8 million during Q1 2009.

As a result of the cash flow generated by the Group, net debt decreased by € 152.7 million during Q1 2009 to € 193.8 million, giving a gearing ratio of 5.4% (compared with 10.7% at 31 December 2008).

The Group's cash exceeded its overdrafts and other short-term bank borrowings by more than € 540 million. More than 95% of the € 735 million bank loans and other borrowings have a maturity in excess of two years. In addition, Vallourec has undrawn confirmed credit lines of around € 1 billion with maturities in 2012 and 2013.

Balance sheet items <i>(in € million)</i>	31/12/2008	31/03/2009
Shareholders' equity (Group share)	3,132.8	3,377.6
Shareholders' equity (including minority interests)	3,232.0	3,618.2
Net debt	346.5	193.8
Net debt/equity	10.7%	5.4%

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CURRENT ENVIRONMENT AND OUTLOOK

In the light of the current economic environment, Vallourec anticipates a further reduction in sales and EBITDA compared to the first quarter. The Group will therefore reinforce the cost reduction measures taken in Q1. It has the ability to significantly reduce its cost base in the next quarters and will take advantage of that flexibility according to the market developments. In addition, Vallourec is focused on actively managing its cash-flow generation and working capital needs, while pursuing its strategic investments, notably in Brazil.

Vallourec's operational flexibility, solid balance sheet and positive cash generation enable the Group to consolidate its position as a leading provider of competitive premium solutions to the Energy markets, and to take advantage of their future recovery.

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APPENDICES

Documents accompanying this release:

- Data on sales volume (metric tonnes)
- 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

- 4 June: Annual General Meeting
- 30 July: release of 2009 Q2 and H1 results
- 24 September: Investor Day
- 12 November: release of 2009 Q3 results

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APPENDICES

Sales volume

Sales volume corresponds to the volume in metric tonnes of hot-rolled tubes produced by Vallourec's rolling mills and delivered to customers.

<i>In thousands of tonnes</i>	2008	2009	Δ 09 / 08
Q1	658.1	488.3	- 25.8%
Q2	740.4		
Q3	671.6		
Q4	696.3		
Total	2,766.4		

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Summary consolidated income statement

(under IFRS – in € million)

Unaudited figures

VALLOUREC	Q1 2008	Q4 2008	Q1 2009	Change Q1 2009 / Q1 2008	Change Q1 2009 / Q4 2008
Sales	1,383.6	1,820.3	1,313.1	-5.1%	-27.9%
Production taken into inventory	46.8	18.4	-5.7	-112.2%	-131.0%
Other operating revenues	8.4	12.4	9.7	15.5%	-21.8%
Purchases consumed	-547.0	-686.9	-429.7	-21.4%	-37.4%
Taxes and duties	-13.6	-14.2	-14.1	3.7%	-0.7%
Payroll costs	-198.3	-244.1	-213.8	7.8%	-12.4%
Other operating costs	-341.3	-398.5	-300.0	-12.1%	-24.7%
Provisions net of reversals	3.2	-15.8	-20.2		
EBITDA	341.8	491.6	339.3	-0.7%	-31.0%
Depreciation	-31.1	-47.1	-45.0	44.7%	-4.5%
Amortization & impairment of assets		-0.9	-1.5		
Asset disposals and restructuring		-2.3	-4.6		
OPERATING INCOME	310.7	441.3	288.2	-7.2%	-34.7%
FINANCIAL INCOME	-17.7	-4.0	6.7		
INCOME BEFORE TAX	293.0	437.3	294.9	0.6%	-32.6%
Income tax	-94.8	-129.4	-95.7	0.9%	-26.0%
Share in net income of equity affiliates	1.0	-3.4	3.7		
TOTAL CONSOLIDATED NET INCOME	199.2	304.5	202.9	1.9%	-33.4%
NET INCOME, GROUP SHARE	193.3	275.4	187.2	-3.2%	-32.0%

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Summary consolidated balance sheet

(under IFRS – in € million)

VALLOUREC					
	31/12/08	31/03/09		31/12/08	31/03/09
Intangible fixed assets	260.9	262.9	Shareholders' equity ⁽¹⁾	3,132.8	3,377.6
Goodwill	308.3	321.7			
Property, plant and equipment	1,641.0	1,767.1	Minority interests	99.2	240.6
Investments in equity affiliates	76.9	91.6	Total equity	3,232.0	3,618.2
Other non-current assets	38.6	42.0			
Deferred tax assets	36.9	39.6	Bank loans and other borrowings	650.2	735.0
Total non-current assets	2,362.6	2,524.9	Employee benefits	146.6	148.0
			Deferred tax liabilities	84.0	77.5
Inventories and work-in-progress	1,443.6	1,412.3	Other provisions and liabilities	7.7	7.4
			Total non-current liabilities	888.5	967.9
Trade receivables	1,203.6	1,111.3	Provisions	93.2	118.1
Derivatives - assets	26.3	31.4	Overdrafts and other short-term bank borrowings	224.4	240.0
Other current assets	200.6	300.7	Trade payables	721.8	578.1
			Derivatives-liabilities	113.3	144.5
Cash and cash equivalents	528.1	781.2	Other current liabilities	491.6	495.0
Total current assets	3,402.2	3,636.9	Total current liabilities	1,644.3	1,575.7
TOTAL ASSETS	5,764.8	6,161.8	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,764.8	6,161.8
Net debt	346.5	193.8	⁽¹⁾ Net income, Group share	967.2	187.2

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