



Vallourec

***Vallourec signs a MOU to acquire
full control of V & M Tubes***

21 January 2005

■ *Highlights of the transaction*

- Vallourec to increase its stake in V & M Tubes from 55% to 100% by acquiring 45% from Mannesmannröhren-Werke ('MRW')
- ⇒ Acquisition price = € 545 million, incl. 2004 dividend
- ⇒ Acquisition in cash to be financed through available cash, long term debt and a rights issue of € 125 million
- ⇒ V & M Tubes to sell 10% of HKM steel plant shares to MRW



An immediate increase of Vallourec's net income, Group share

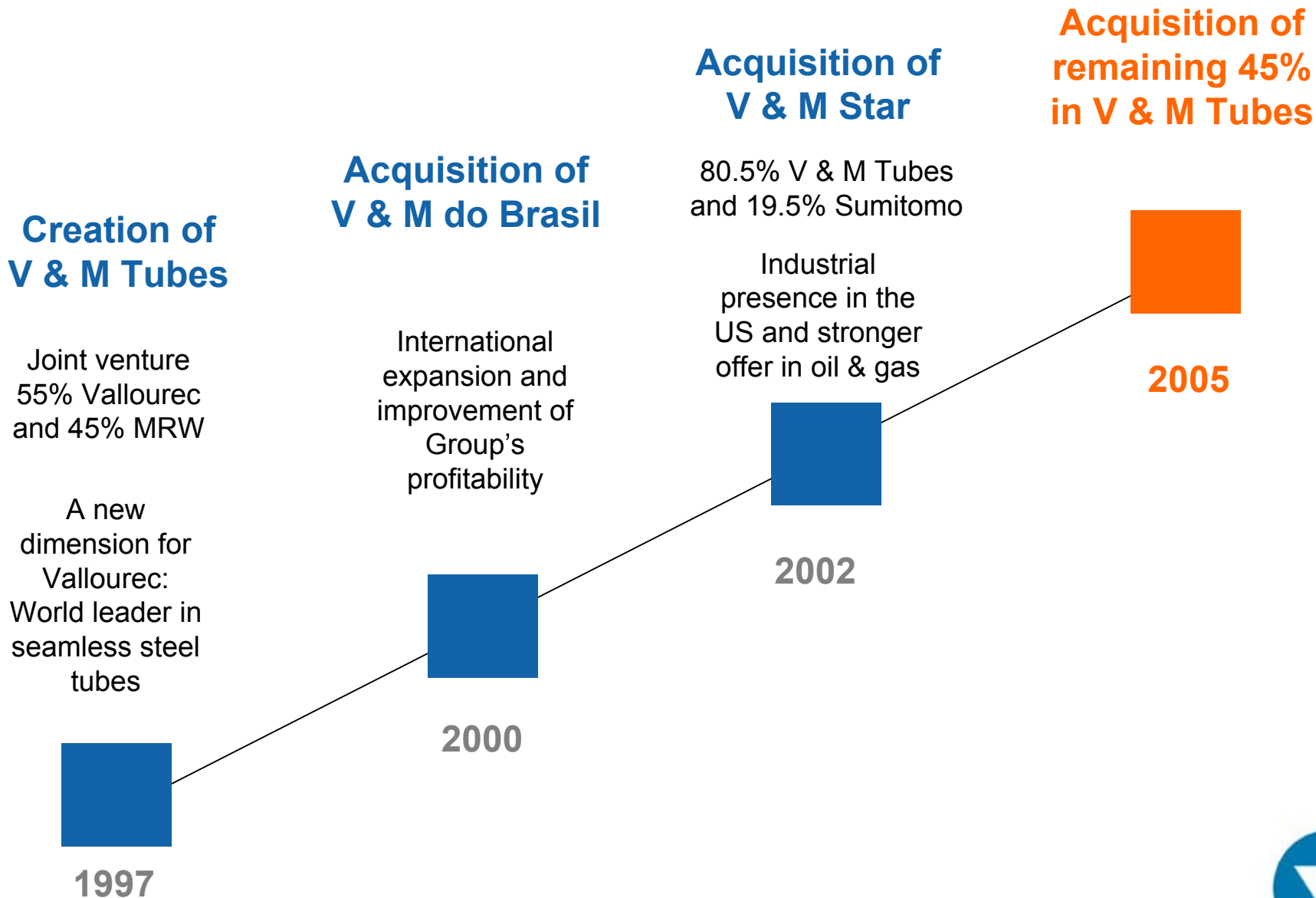


■ *Details of the transaction*

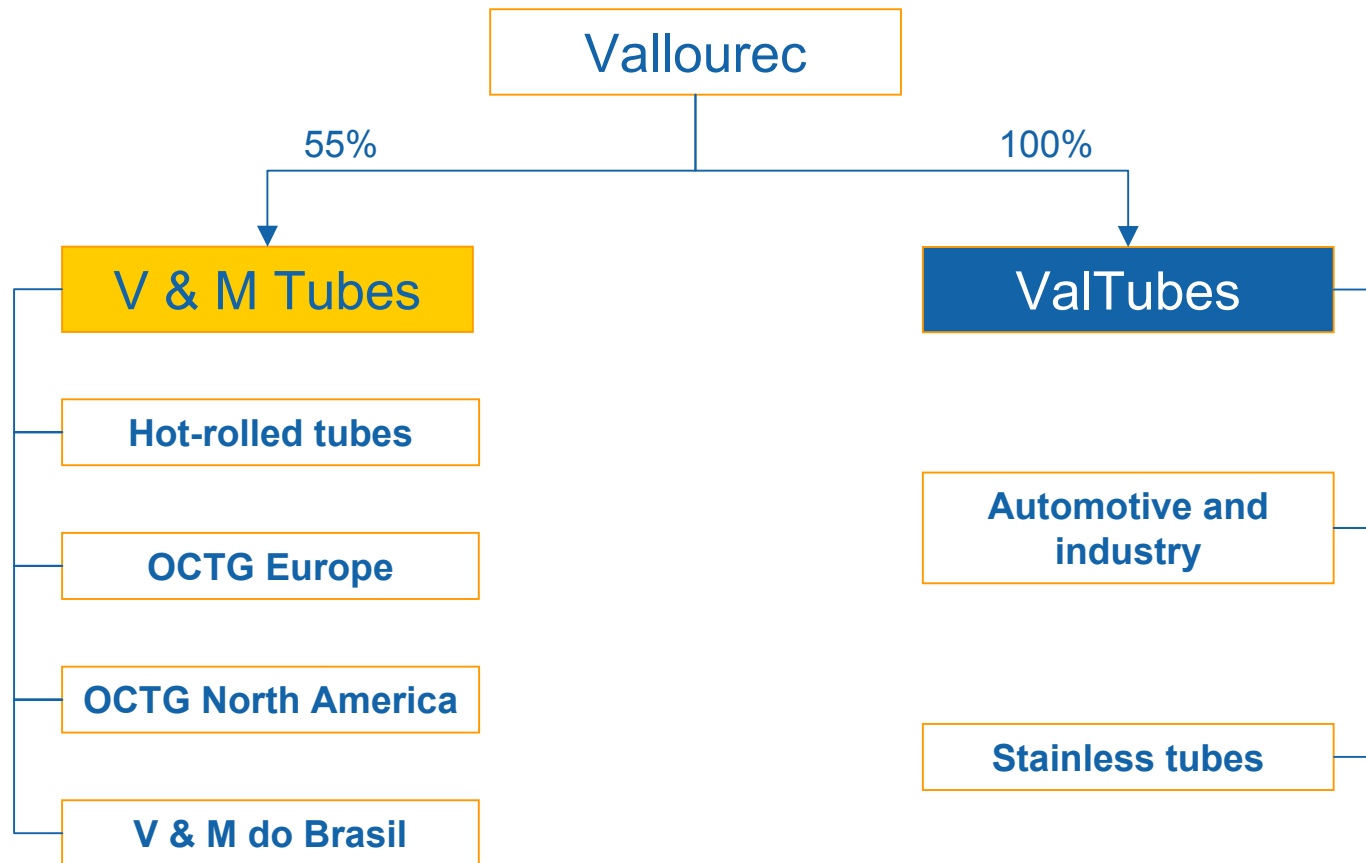
- Acquisition price includes all interests held by MRW in V & M Tubes and affiliates, i.e.:
 - 45% of V & M Tubes
 - 33% of V & M Tubes Corporation
- ➡ Vallourec to own 100% of V & M Tubes and affiliates (except for 19.5% of V & M Star held by Sumitomo)
- Transfer from V & M Tubes to MRW of 10% of HKM shares
 - ➡ V & M Tubes to retain 20% ownership in HKM and its sourcing volume from HKM to remain unchanged
- Provisions of the 1997 agreement between Vallourec and MRW (change of control clause and reserved matters) will expire
 - ➡ Vallourec to secure control and gain full command of its main subsidiary



V & M Tubes at the heart of Vallourec's growth

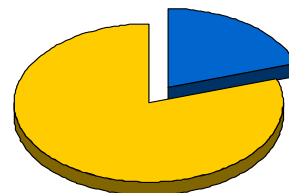


V & M Tubes within Vallourec



Total Group sales H1 2004 = € 1,379 million

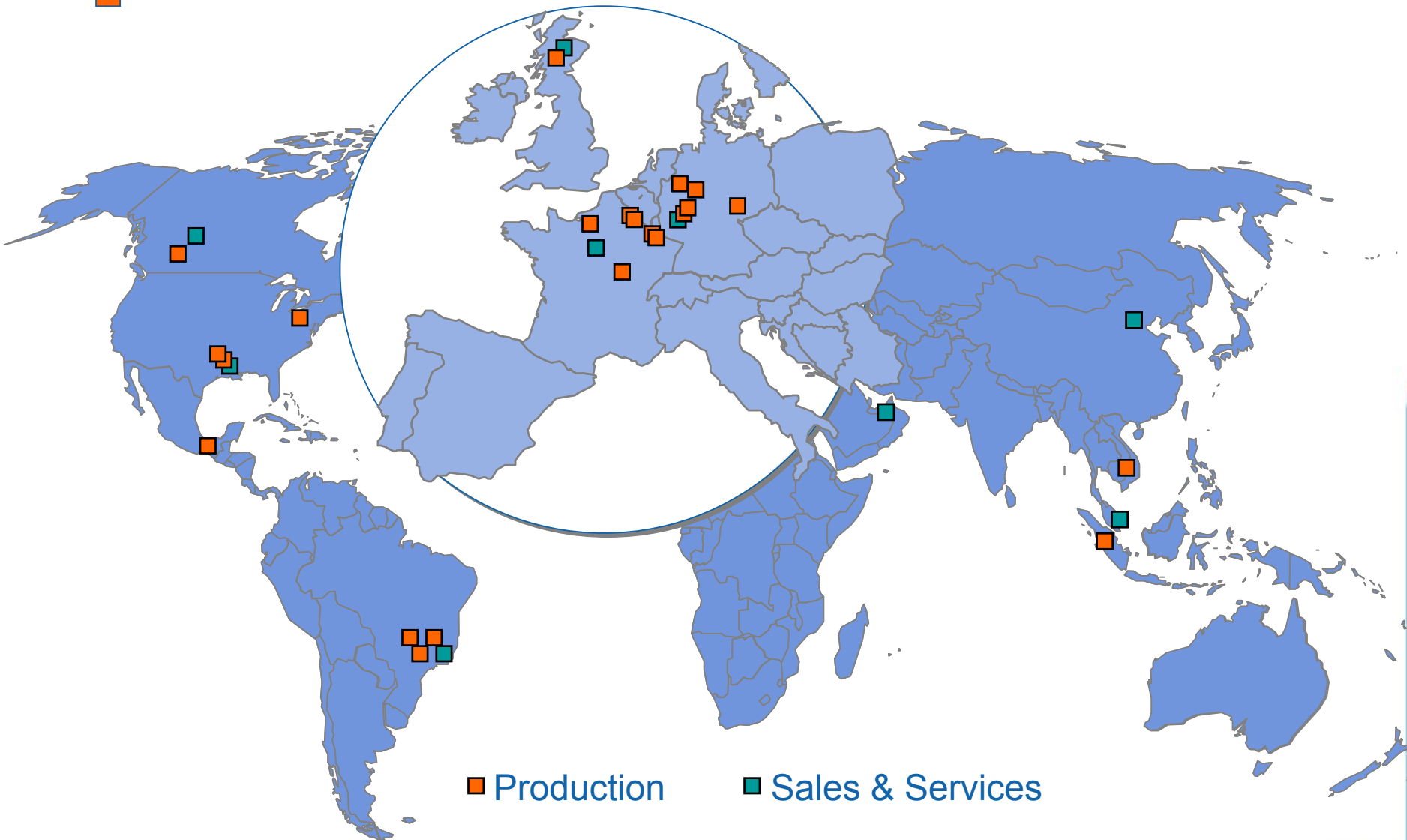
V & M Tubes
79%



ValTubes
21%



V & M Tubes facilities worldwide



V & M Tubes = 14,000 employees



V & M Tubes financial highlights

<i>In € million</i>	2002		2003		H1 2004	
	V & M Tubes	Group	V & M Tubes	Group	V & M Tubes	Group
Sales	2,035	2,550	1,875	2,376	1,095	1,379
EBITDA	324	348	184	220	130	156
<i>EBITDA / sales</i>	<i>15.9%</i>	<i>13.6%</i>	<i>9.8%</i>	<i>9.3%</i>	<i>11.9%</i>	<i>11.3%</i>
EBIT	256	257	105	119	94	107
Total net income	159	142	80	77	73	77
Net income, Group share	84	65	44	40	38	40

Already fully consolidated, V & M Tubes contributes to the bulk of Vallourec's financial performance



V & M Tubes in summary

- Industrial facilities in three continents
- Comprises the Group's entire:
 - steel production
 - hot-rolled tubes production
 - oil & gas activities
- Essential contributor to Vallourec's financial performance

World leader in seamless steel tubes production
thanks to Mannesmann heritage



■ *A major step leading to the construction of a fully-integrated Group*

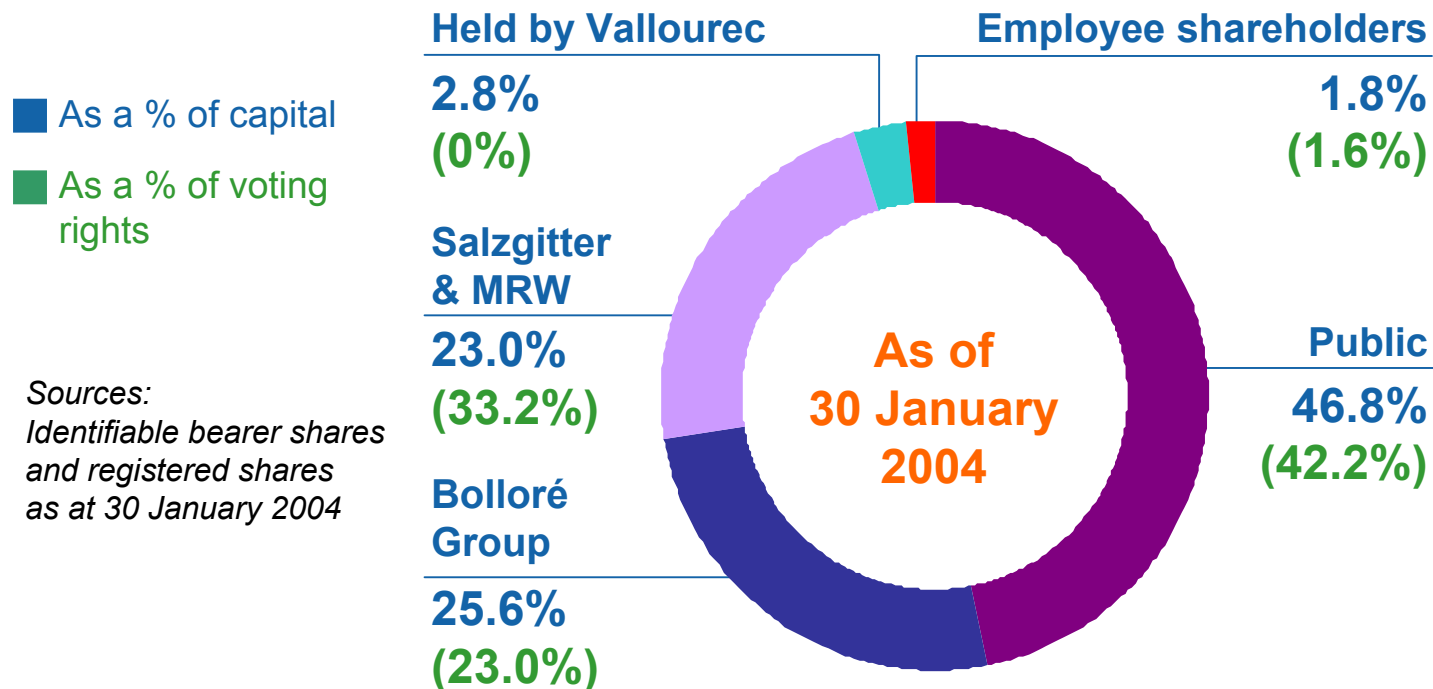
- Vallourec to have full command on V & M Tubes strategy implementation (acquisitions, industrial investments, etc.)
- Towards a more cohesive Group structure: Vallourec to become fully-integrated and to gain in clarity
- Access to 100% of V & M Tubes income and cash-flow
- Easier access to financial resources to pursue organic and/or external growth

A highly valuable operational and financial operation



Rights issue

- Amounting to € 125 million with preemptive subscription rights
- Expected to be launched in Q2 2005
- Salzgitter / MRW and Bolloré Group both intend to subscribe in proportion of their respective shareholdings in Vallourec



Financial impact of the transaction

- Considerable accretive impact for Vallourec
- Full access to V & M Tubes strong cash flow
- Planned combination of equity, cash and debt financing will allow Vallourec to maintain gearing not exceeding the 50% range

Very significant improvement of earnings per share
and available cash



Expected timetable

- Signing of MOU* 20 January 2005
- Extraordinary General Meeting* end of February 2005
- Clearance by competition authorities* February / March 2005
- Signing of definitive agreement* end of March 2005
- Completion of rights issue* 2nd quarter 2005
- Completion of transaction* by 31 July 2005



Group outlook

Strong performance in 2004

- Sales: strong volume growth compared to 2003 + positive impact of price increases in second half
- EBITDA: second half will be, in absolute terms, higher than first half

Positive outlook for 2005

- Sales: as yet, demand for the first few months of 2005 shows no sign of weakening
- Net income, Group share will strongly benefit from the completion of the transaction



Conclusion

- Vallourec benefits from buoyant business conditions and from its healthy financial position to make a significant step forward in constructing a fully-integrated Group
- The transaction will provide Vallourec with more operational and financial room to implement its strategic plan
- The transaction will increase Vallourec's financial performance: it will be accretive and therefore benefit Vallourec shareholders



A stronger, clearer and more cohesive Vallourec





Appendices

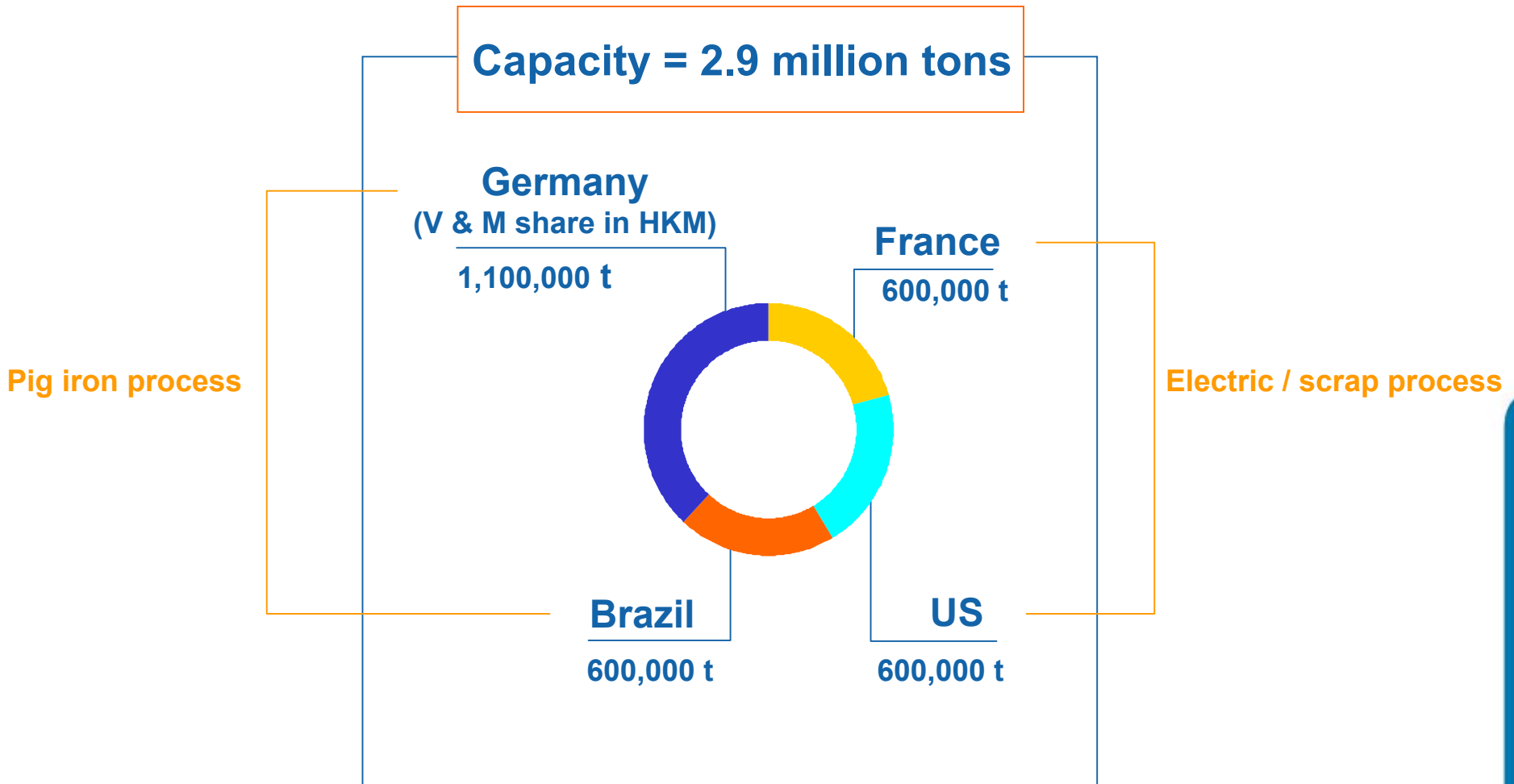
Sale of 10% of HKM steel plant shares to MRW

- V & M Tubes (30%) and MRW (20%) currently hold jointly a 50% share in HKM through a pooling agreement; the remaining 50% are held by Thyssen Krupp Stahl ('TKS')
- Subject to approval by TKS, V & M Tubes will transfer to MRW 10% of its HKM shares and will retain 20% ownership in HKM
- Selling price = € 22 million
- V & M Tubes utilization of HKM production capacity remains unchanged

A transfer with no impact on steel sourcing conditions



V & M Tubes steel production capacity

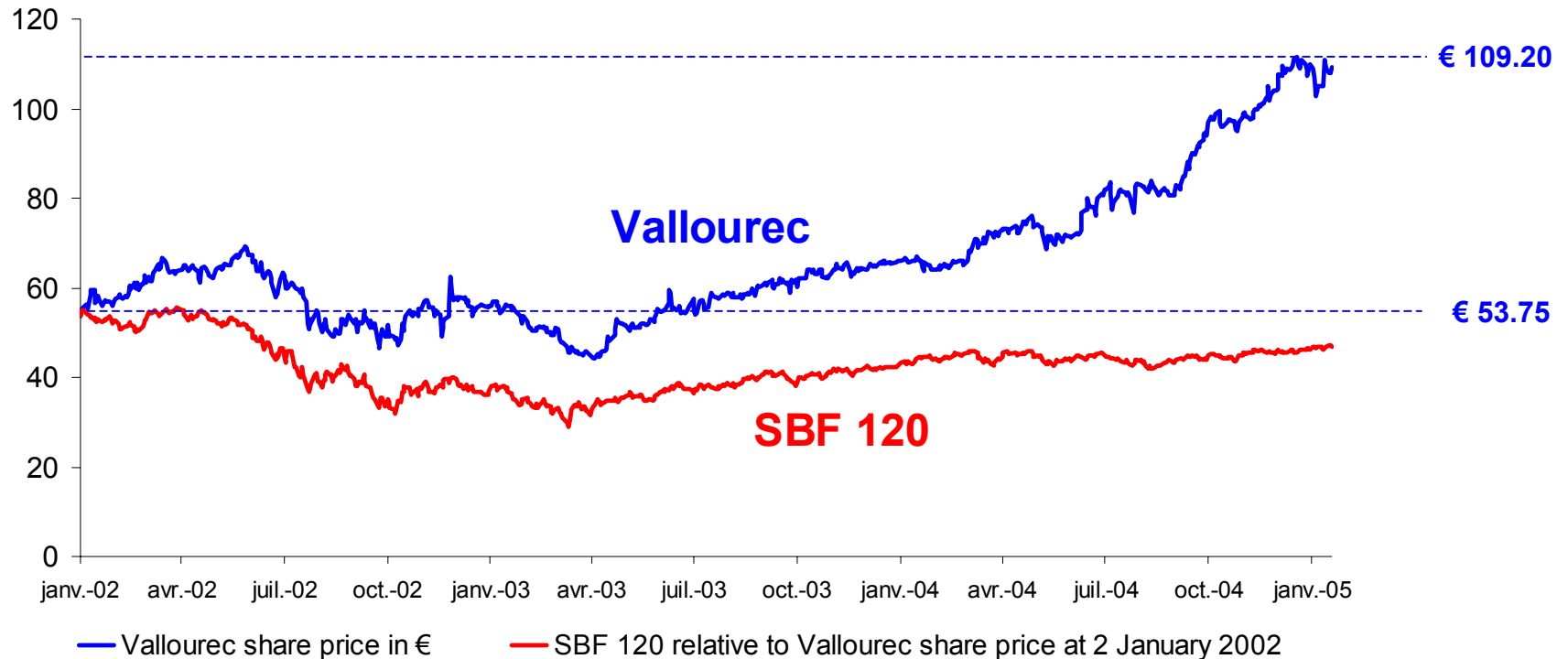


Balance between the various raw materials used
Self supply in Brazil



Vallourec share price / SBF 120

Vallourec
share price



As of 2 January 2002:

■ Vallourec: € 53.75
■ SBF 120: 3,149.54

As of 19 January 2005:

■ Vallourec: € 109.20
■ SBF 120: 2,751.69

% change:

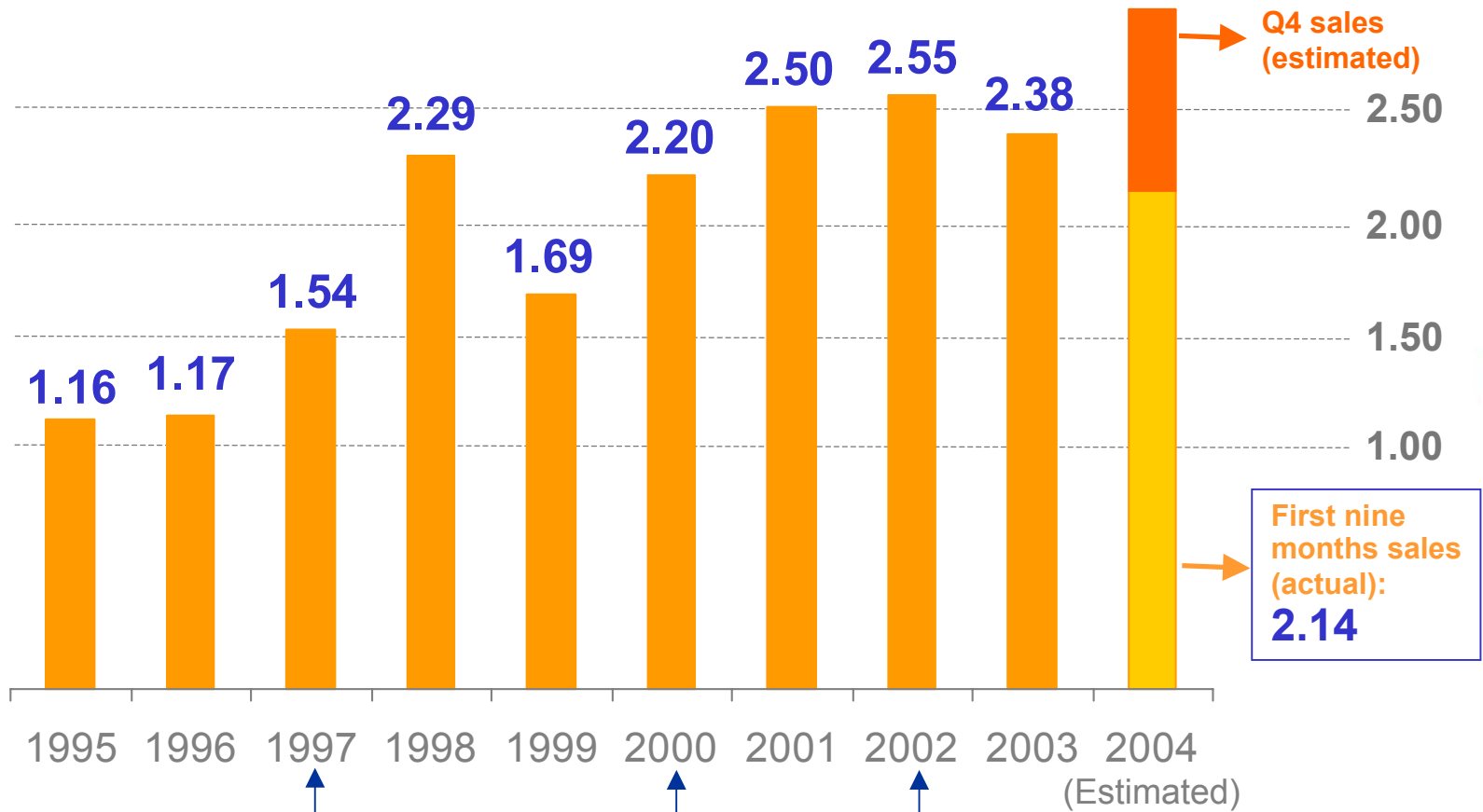
■ Vallourec: +103%
■ SBF 120: -13%

Market capitalization as of 19 January 2005: € 1.08 billion



Sales trend over 10 years

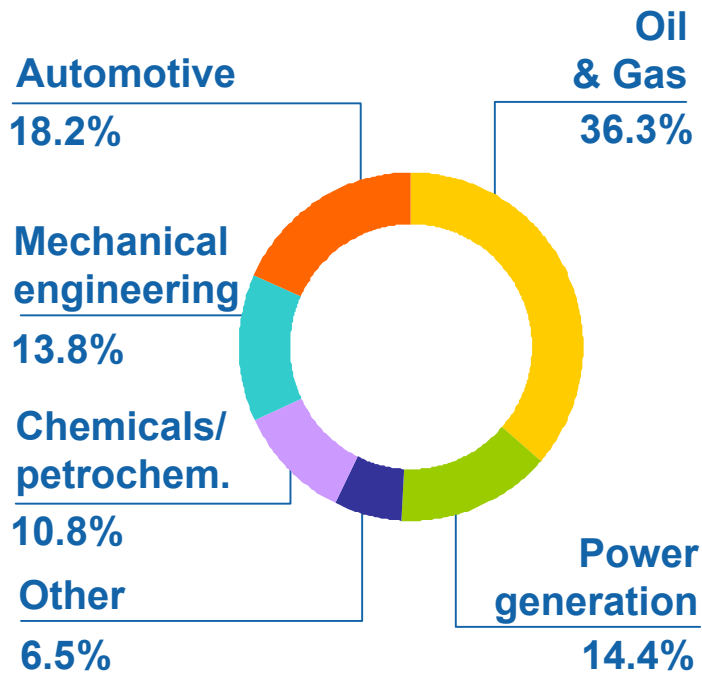
In € billion



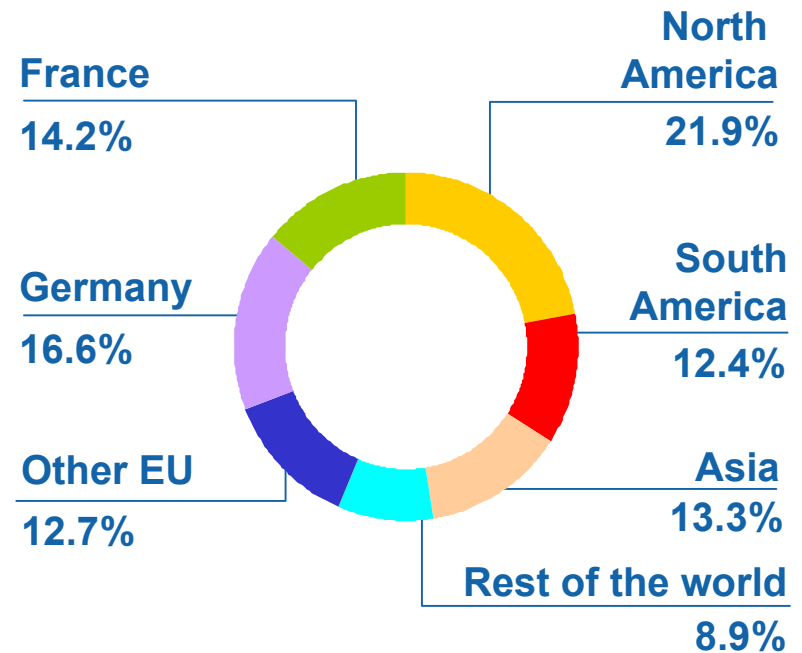
Sales breakdown

by market and by geographic region

H1 2004 sales = € 1,379m



Total energy: 50.7% of sales

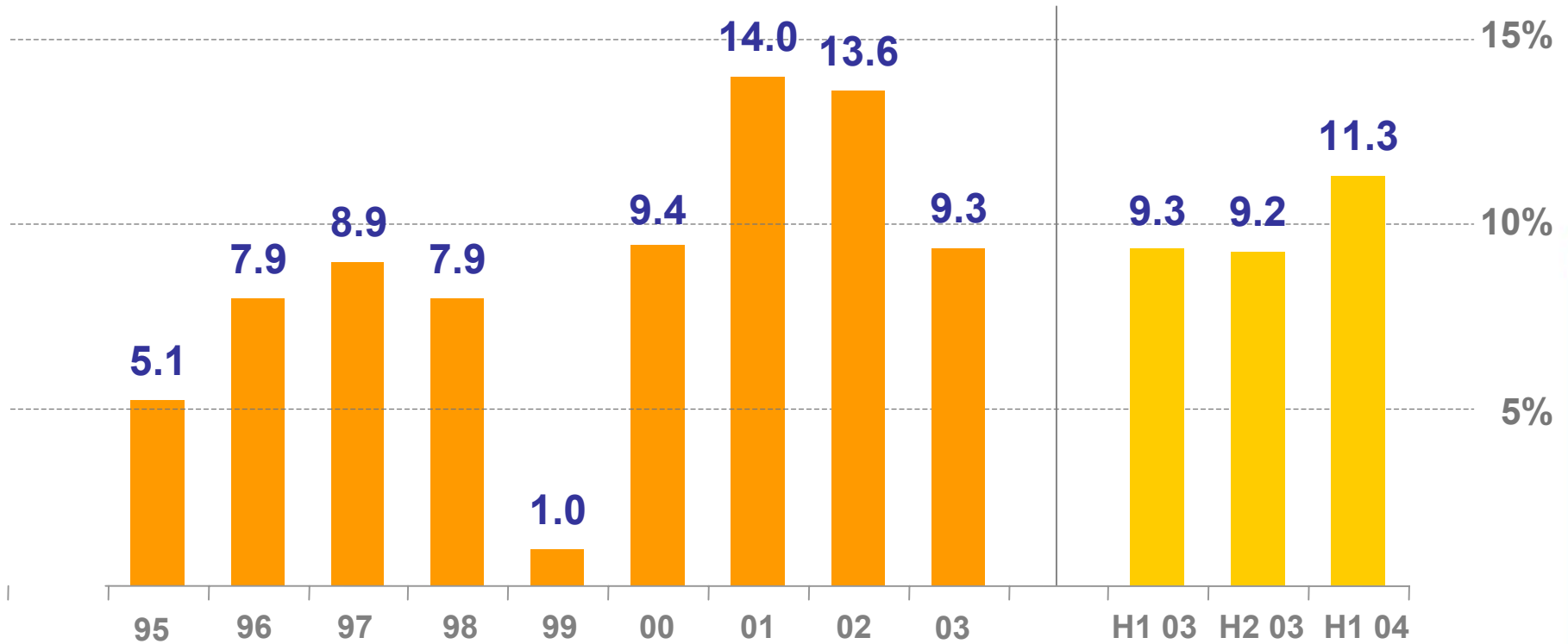


Total non-EU: 56.5% of sales



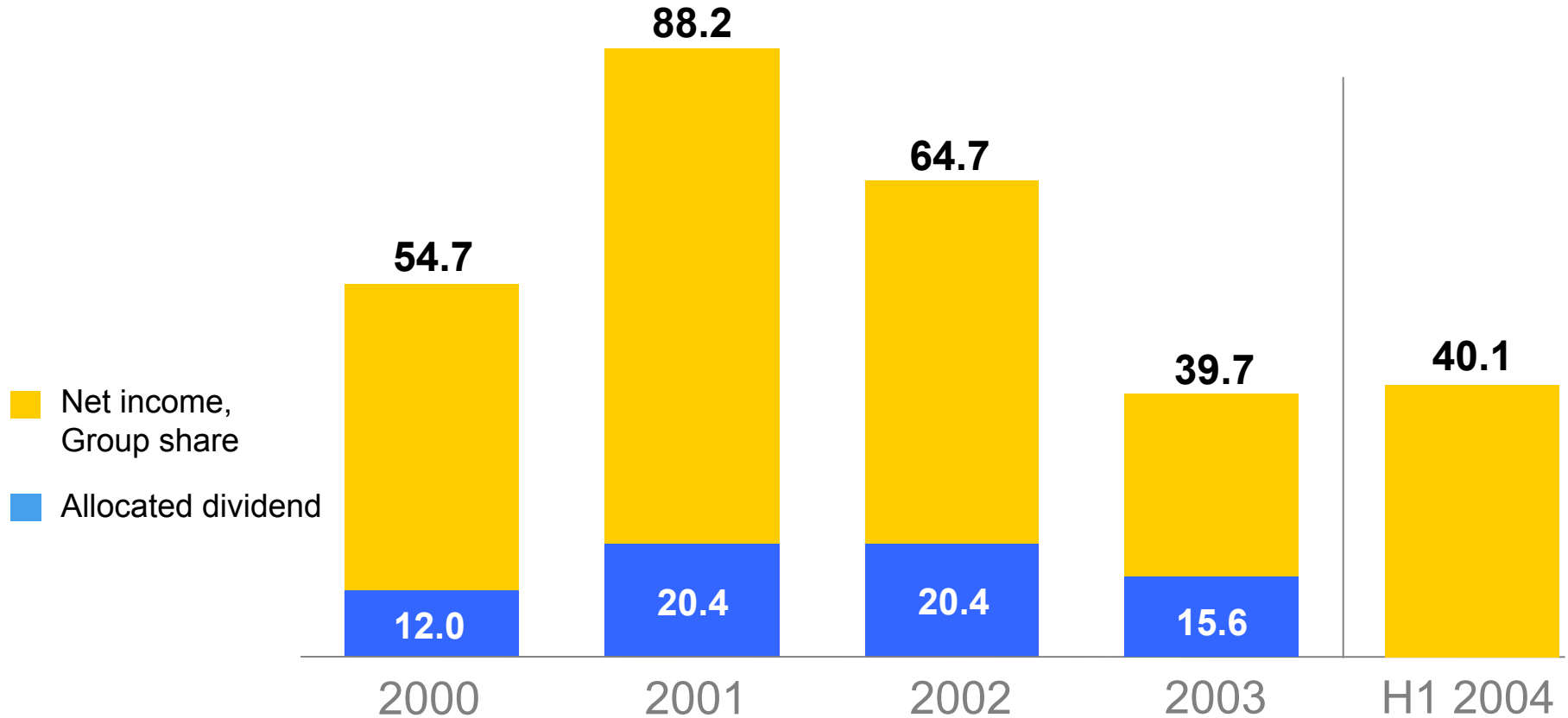
Profitability trend over 10 years

EBITDA / Sales ratio



Net income and dividend policy

In € million



Dividend per share (in €)

1.30	2.10	2.10	1.60
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Pay-out ratio

21.9%	23.1%	31.5%	39.2%
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A healthy financial structure

- Gross cash flow from operations of € 137 million in the first half of 2004
- Net debt was cut down to € 30 million without recourse to the financial market whilst financing a major investment programme (nearly € 1 billion over the past five years)

	31/12/2003	30/06/2004
Net debt	€ 73.2m	€ 30.0m
Gearing ratio	7.1%	2.8%

