

PRESS RELEASE



V A L L O U R E C

2005 FIRST HALF RESULTS

Excellent first half in highly favourable environment

- Sales: € 1,975.4 million (+43.3%)
- EBITDA: € 449.6 million (+156.5%)
- Net income, Group share: € 144.0 million (+235.7%)

Interim dividend for financial year 2005: € 4.0 per share

Boulogne-Billancourt, 15 September 2005 - Vallourec, world leader in the production of seamless steel tubes and tubular products for specific industrial applications, today announced its results for the first half of 2005. The consolidated financial statements, which were presented by Vallourec's Management Board to its Supervisory Board on 14 September 2005, have been prepared in accordance with International Financial Reporting Standards (IFRS). The 2004 financial statements have been restated in accordance with IFRS.

Consolidated sales for the first half of 2005 increased by 43.3% to € 1,975.4 million. EBITDA rose by 156.5% to € 449.6 million, giving an EBITDA/sales ratio of 22.8% compared with 12.7% for the first half of 2004. Total net income more than tripled to € 267.0 million. Group share of net income amounted to € 144.0 million compared with € 42.9 million for the first half of 2004.

Income statement (in € million)	First half 2004		First half 2005		Change H1 2005 / H1 2004
		as a % of sales		As a % of sales	
Sales	1,378.8		1,975.4		+43.3%
EBITDA	175.3	12.7%	449.6	22.8%	+156.5%
Operating income	119.9	8.7%	408.4	20.7%	+240.6%
Total net income	81.7	5.9%	267.0	13.5%	+226.8%
Net income, Group share	42.9	N/A	144.0	N/A	+235.7%

ACTIVITY

After taking into account the disposal, effective on 1 January 2005, of the Group's automotive components activities in Brazil and Argentina, sales in the first half of 2005 were 46.8% higher, at constant consolidation scope, than those in the first half of 2004. This strong growth was due in part to a favourable base effect. In fact, in the first half of 2004, volumes increased only gradually during the early months and, more importantly, the effects of the price increases negotiated to pass on the rises in raw material costs had hardly started to be reflected in the financial statements.



Vallourec, which benefited from a favourable environment, has since applied a series of price increases, particularly in Brazil and the US. During the first half of 2005, overall demand remained at the extremely high level experienced at the end of 2004. Compared with the first half of 2004, all of Vallourec's markets recorded growth in sales and the demand for tubes increased worldwide.

At constant consolidation scope, growth between the first half of 2004 and the first half of 2005 is made up of a volume effect of +10.3% and a price, mix and currency effect of + 33.1%.

Sales by market

	First half 2005 sales (in € million)	Change H1 2005 / H1 2004	Contribution to total sales for H1 2005
Oil and gas	776	+54.9%	39.3%
Power generation	306	+54.5%	15.5%
Total Energy	1,082	+54.8%	54.8%
Mechanical engineering	296	+55.8%	15.0%
Chemicals and petrochemicals	215	+45.3%	10.9%
Automotive	259	+3.2%*	13.1%
Other	123	+14.1%	6.2%
Total Non-Energy	893	+36.7%	45.2%
Total	1,975	+43.3%**	100.0%

* at constant consolidation scope: +19.4%

** at constant consolidation scope: +46.8%

In the oil and gas sector, sales continued to grow strongly during the first half in the US and in the rest of the world due to the combined effect of buoyant demand and a sharp increase in selling prices. Sales increased by 54.9% compared with the first half of 2004 and by 28.3% compared with the second half of 2004.

Sales in the power generation sector rose by 54.5% compared with the first half of 2004 and by 13.8% compared with the second half of 2004, reflecting the strength of this market, particularly in China, which represents more than 50% of Vallourec's sales in this sector. In the rest of the world, sales continued to increase due to revamping and maintenance programmes.

In the mechanical engineering sector, demand, which is mainly European, continued to grow at a particularly fast rate in the first half of 2005: sales increased by 55.8% compared with the first half of 2004 and by 24.4% compared with the second half of 2004.

In the chemicals and petrochemicals sector, sales in the first half increased by 45.3% compared with the first half of 2004 and by 15.6% compared with the second half of 2004.

As regards tubes and components for the automotive industry, by essence a less cyclical activity, growth was comparatively lower than for the Group's other activities. Sales for the first half increased by 3.2% compared with the first half of 2004. However, when taking into account the disposal, effective on 1 January 2005, of the automotive components activities in Brazil and Argentina, the increase is 19.4% at constant consolidation scope.

RESULTS

Operating costs increased by 31.5% compared with the first half of 2004. This increase consists of:

- a 50.4% rise in purchases of raw materials, due mainly to a sharp increase in prices and, to a lesser extent, to growth in volumes;
- a 16.5% rise in all other operating costs, due, in particular, to an increase in transportation and energy costs.

The increase in selling prices, the growth in volumes and the enhanced mix were the main causes of the growth in EBITDA, which increased by 156.5% to € 449.6 million compared with € 175.3 million in the first half of 2004. EBITDA therefore represented an exceptionally high level at 22.8% of sales in the first half of 2005 compared with 12.7% in the same period last year and 16.8% in the second half of 2004.

The effective tax rate was 32.5% compared with 26.0% for the first half of 2004, since the Group had already used up almost all of its tax credits.

Total net income more than tripled to € 267.0 million, i.e. 13.5% of sales. As for Group share of net income, it increased by 235.7% to € 144.0 million.

Following the acquisition of the 45% stake in V & M TUBES, the Group's cash position changed from positive net cash of € 54.6 million at 31 December 2004 to net debt of € 405.6 million at 30 June 2005. However, when taking into account two events that occurred early in July – the rights offering, which generated € 122.9 million, and the payment of the dividend for the financial year 2004, which amounted to € 30.7 million – adjusted net debt and gearing ratio (net debt / shareholders' equity) become € 313.4 million and 26.4% respectively.

Cash flow statement <i>(in € million)</i>	First half 2004	First half 2005
Gross cash flow from operations	149.8	364.2
Change in gross operating working capital requirement	-64.4	-272.9
Gross capital expenditure	-33.5	-58.2
Financial investments		-550.6
Asset disposals	+1.0	+38.5
Paid dividends (to minority shareholders)	-25.7	-9.3
Non-operating items	+16.2	+28.1
Change in net cash	+43.4	-460.2

Balance sheet items <i>(in € million)</i>	31 December 2004	30 June 2005
Shareholders' equity (including minority interests)	1,312.6	1,064.6
Shareholders' equity (Group share)	812.9	959.2
Net debt	-54.6	405.6*

* Before rights offering and payment of dividend for the financial year 2004, both of which took place at the beginning of July 2005.

OUTLOOK

The favourable environment from which the Group's activities benefited in 2004 and in the first half of 2005 look set to continue and has resulted, in particular, in long order books in the oil and gas and power generation sectors.

After taking these factors into account, sales in the second half of 2005 will, in all likelihood, be higher than those of the first half of 2005. The EBITDA/sales ratio in the second half is expected to remain close to the ratio achieved during the first half of 2005, barring unforeseen circumstances.

As from 1 July 2005, the purchase by the Vallourec group of the 45% stake in V & M TUBES will significantly boost net income, Group share.

It therefore seems that the top-of-the-cycle phase is continuing. Fundamentals in the oil and gas and power generation sectors remain very positive, sustained overall by energy consumption requirements. Demand for drill pipes and well equipment is benefiting from the level of oil and gas prices, while demand for products for power plants reflects the significant number of programmes to construct new plants and refurbish existing plants.

The Group stresses, however, that movements in raw material prices and the dollar's exchange rate remain factors of uncertainty.

Vallourec notes that the process preceding the acquisition of the assets of OMSCO, which specializes in oil and gas drilling tubes, are progressing as planned.

2005 INTERIM DIVIDEND

On 19 April 2005, Vallourec announced that it would examine the possibility of paying an interim dividend for the financial year 2005 during the second half of 2005. At its meeting on 14 September 2005, the Supervisory Board approved the payment of an interim dividend of € 4.0 per share, which will be paid on 12 October 2005. For information, a dividend of € 3.2 per share was paid for the financial year 2004.

APPENDICES

Documents accompanying this release:

- Summary consolidated income statement
- Summary consolidated balance sheet

Calendar

- Consolidated sales for the third quarter of 2005 will be released on 27 October 2005.
- Consolidated sales for the fourth quarter of 2005 will be released on 1 February 2006.
- Consolidated results for the financial year 2005 will be released on 8 March 2006.

About Vallourec

Vallourec is a world leader in the production of seamless steel tubes and tubular products for specific industrial applications (oil and gas, power generation, chemicals and petrochemicals, automotive and mechanical engineering industries).

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: SBF 120, CAC Mid 100 and NEXT 150.

FTSE classification: engineering and machinery.

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Summary consolidated income statement

(in IFRS – in € million)

<u>VALLOUREC GROUP</u>	First half 2004		First half 2005		Change H1 05 / H1 04
		<i>in % of sales</i>		<i>in % of sales</i>	
Sales	1,378.8		1,975.4		+43.3%
Change in finished goods inventory	48.8	3.5%	124.1	6.3%	+154.3%
Other operating revenues	10.8	0.8%	11.4	0.6%	+5.6%
Purchases consumed	-560.2	40.6%	-842.3	42.6%	+50.4%
Taxes and duties	-24.2	1.8%	-26.0	1.3%	+7.4%
Payroll costs	-312.2	22.6%	-350.0	17.7%	+12.1%
Other operating costs	-364.0	26.4%	-430.0	21.8%	+18.1%
Provisions, net of reversals	-2.5	0.2%	-13.0	0.7%	+420.0%
EBITDA	175.3	12.7%	449.6	22.8%	+156.5%
Depreciation & amortization	-46.0	3.3%	-48.7	2.5%	+5.9%
Impairment of assets and goodwill	-0.6		0.7		
Assets disposals and restructuring	-8.8		6.8		
OPERATING INCOME	119.9	8.7%	408.4	20.7%	+240.6%
FINANCIAL INCOME	-8.8		-10.5		
INCOME BEFORE TAX	111.1	8.1%	397.9	20.1%	+258.1%
Income tax	-28.7		-128.3		+347.0%
Net income of equity affiliates	-0.7		-2.6		+271.4%
CONSOLIDATED NET INCOME	81.7	5.9%	267.0	13.5%	+226.8%
NET INCOME, GROUP SHARE	42.9		144.0		+235.7%

Summary consolidated balance sheet

(in IFRS – in € million)

VALLOUREC GROUP					
	31/12/04	30/06/05		31/12/04	30/06/05
Intangible fixed assets	10.8	10.4	Vallourec shareholders' equity (1)	812.9	959.2
Goodwill	47.3	51.7			
Net tangible fixed assets	733.5	792.3	Minority interests	499.7	105.4
Investments in equity affiliates	52.1	39.7	Total equity	1,312.6	1,064.6
Other non current assets	33.5	35.1			
Deferred tax assets	17.7	37.8	Bank loan LT	189.8	428.5
Total non current assets	894.9	967.0	Employees benefit	198.9	206.5
			Deferred tax liabilities	38.9	40.5
Inventories & work-in-progress	593.5	778.2	Other provisions & LT liabilities	4.9	3.9
			Total non current liabilities	432.5	679.4
Trade receivables	639.9	822.0	Provisions	65.0	74.8
Financial instruments assets		2.3	Bank loan ST	240.6	406.2
Other current assets	137.2	134.9	Trade payables	402.7	454.0
			Financial instruments liabilities		80.8
Cash & cash equivalents	485.0	429.1	Other current liabilities	297.1	373.7
Total current assets	1,855.6	2,166.5	Total current liabilities	1,005.4	1,389.5
TOTAL ASSETS	2,750.5	3,133.5	TOTAL LIABILITIES	2,750.5	3,133.5

Net operating working capital	708.4	999.1	(1) Net income, Group share	145.0	144.0
Financial net debt	-54.6	405.6			