

# PRESS RELEASE



## V A L L O U R E C

### 2006 FIRST HALF RESULTS

## An excellent first half

- Strong sales growth: +37.6% to € 2,717.3 million
- Record level of profitability: EBITDA/sales ratio of 30.8%
- Record net income, Group share: € 452.6 million

**Interim dividend for financial year 2006: € 2.0 per share**

*Boulogne-Billancourt, 13 September 2006* - 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 2006. The consolidated financial statements were presented by Vallourec's Management Board to its Supervisory Board on 12 September 2006.

Consolidated sales for the first half of 2006 increased by 37.6% to € 2,717.3 million. EBITDA rose by 85.9% to € 835.9 million, resulting in a record EBITDA/sales ratio of 30.8% compared with 22.8% for the first half of 2005. Total net income increased by 85.4% to € 495.0 million. Group share of net income, which benefited from the positive effect of the acquisition of the 45% stake in V & M TUBES on 1 July 2005, amounted to € 452.6 million compared to € 144.0 million for the first half of 2005.

<b>Income statement</b> <i>(in € million)</i>	<b>First half 2005</b> <i>as a % of sales</i>		<b>First half 2006</b> <i>as a % of sales</i>		<b>Change</b> <b>H1 2006 /</b> <b>H1 2005</b>
Sales	1,975.4		<b>2,717.3</b>		+37.6%
EBITDA	449.6	22.8%	<b>835.9</b>	<b>30.8%</b>	+85.9%
Operating income	408.4	20.7%	<b>782.5</b>	<b>28.8%</b>	+91.6%
Total net income	267.0	13.5%	<b>495.0</b>	<b>18.2%</b>	+85.4%
Net income, Group share	144.0*	N/A	<b>452.6</b>	<b>N/A</b>	+214.3%

\*Group share of net income would have been € 246.5 million had the 45% stake in V & M TUBES been acquired as at 1 January 2005.

### **ACTIVITY**

Demand remained at a particularly high level during the first half of 2006. In this favourable environment, the 37.6% sales growth recorded between the first half of 2005 and the first half of 2006 is made up of a scope effect of +2.6%, a volume effect of +6.6% and a combined mix, price and currency effect of +26.0%.

The scope effect is mainly due to the consolidation as from 1 October 2005 of OMSCO Inc., which was formed to hold OMSCO's assets. This acquisition enabled Vallourec to become the number two in the world oil & gas drill pipe market. This position was further strengthened by the acquisition in March 2006 of SMFI, whose results have been consolidated into Vallourec's financial statements as from 1 April 2006. By contrast, the sale of Spécitubes, the only Group company that operated in the aerospace sector, and its consequent deconsolidation as from 1 April 2006, had a slight negative impact on sales.

In June, a production incident, due to a broken gantry at the HKM steel mill in Germany, had an impact on the Group's sales which was limited to about € 50 million due to the use of existing inventories and the purchase of steel from external sources. Despite this, Vallourec's production facilities continued to operate at close to full capacity in the first half of the year, which explains the sales growth in volume terms.

This intensive use of the Group's production facilities enabled Vallourec to achieve a very high level of productivity and to optimize production, by focusing it as far as possible, towards higher value-added products.

At the same time, the Group continued to implement selling price increases, a process begun during the first half of 2004. The Group benefited not only from the full effect of price increases applied in 2005 but also from further one-off increases during the first half of 2006, which were applied to certain higher value-added products.

Of particular note is the fact that sales for the first half of 2006 were 16.5% higher than those for the second half of 2005.

#### Sales by market

	First half 2006 sales (in € million)	Change H1 2006 / H1 2005	Contribution to total sales for H1 2006
Oil and gas	1,290	+66.2%	47.5%
Power generation	450	+47.1%	16.6%
<b>Total Energy</b>	<b>1,740</b>	<b>+60.8%</b>	<b>64.1%</b>
Petrochemicals	309	+43.7%	11.4%
Mechanical engineering	293	-1.0%	10.8%
Automotive	243	-6.2%	8.9%
Other	132	+7.3%	4.8%
<b>Total Non-Energy</b>	<b>977</b>	<b>+9.4%</b>	<b>35.9%</b>
<b>Total</b>	<b>2,717</b>	<b>+37.6%</b>	<b>100%</b>

In the oil and gas sector, sales were 66.2% higher than in the first half of 2005 and 22.5% higher than in the second half of 2005. Sales grew significantly in the United States and in the rest of the world due to the combined effect of very buoyant demand, a higher proportion of premium products in the Group's sales and a sharp rise in selling prices. Vallourec also benefited from the acquisitions of OMSCO and SMFI (pipes and other products for oil and gas drilling), both of which are being successfully integrated into the Group. In this context, Vallourec has entered into a contract to supply Weatherford, the world leader in rental drilling equipment, with half of its drill pipe requirements, for an amount which could represent up to USD 80 million on a full year basis.

Sales in the power generation sector rose by 47.1% compared with the first half of 2005 and by 7.7% compared with the second half of 2005, reflecting the healthy state of this business, which continues to be driven by strong Chinese demand. Vallourec is, however, beginning to see an increase in the proportion of its orders relating to new power plant projects in Europe and the United States.

The Group is focused to an even greater extent on the energy sectors (oil & gas and power generation) with the result that sales to this segment represented 64.1% of total sales compared with 54.8% prior year.

The petrochemicals sector experienced strong growth during the first half of 2006 (up 43.7% compared with the first half of 2005 and up 25.6% compared with the second half of 2005) due in particular to an increase in activity resulting from the need to rebuild certain facilities destroyed the previous year by the cyclones that hit the United States.

The mechanical engineering activities were somewhat limited by the Group's production capacity and therefore sales remained virtually stable as compared with the first half of 2005 (down 1.0%), but increased by 5.8% compared with the second half of 2005 in an environment characterized by sustained demand and high prices.

Sales of products for the automotive industry fell slightly during the first half of 2006 (down 6.2% compared with the first half of 2005), as Vallourec was impacted by the reduced levels of activity experienced by the two main French car manufacturers, PSA and Renault.

## **RESULTS**

Operating costs increased by 21.1% compared with the first half of 2005. This increase resulted from:

- a 17.6% rise in purchases of raw materials, due to higher purchase prices than in the same period last year, the growth in volumes and the fact that, compared with previous years, a higher proportion of the Group's steel needs were purchased from external sources ;
- an overall 24.8% 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 drivers of the growth in EBITDA, which rose by 85.9% to € 835.9 million compared with € 449.6 million in the first half of 2005. As a result, the EBITDA / sales ratio reached an exceptionally high level, corresponding to 30.8% in the first half of 2006 compared with 22.8% in the same period last year and 26.2% in the second half of 2005.

The effective tax rate was 35.1% compared with 32.5% for the first half of 2005, since the Group had used up all of its tax credits.

Total net income increased by 85.4% to € 495.0 million, representing 18.2% of sales. Net income, Group share more than tripled to € 452.6 million, benefiting from the positive effect of the acquisition of the 45% stake in V & M TUBES with effect from 1 July 2005.

Due to effective control of its working capital requirements and despite an increase in gross capital expenditure and dividends paid, the Group generated positive cash flow, enabling its cash position to change from net debt of € 204.7 million at 31 December 2005 to positive net cash of € 57.7 million at 30 June 2006. Its gearing ratio (net debt/shareholders' equity) changed from 13.6% to -3.0%.

<b>Cash flow statement</b> <i>(in € million)</i>	<b>First half 2005</b>	<b>First half 2006</b>
<b>Gross cash flow from operations</b>	356.5	<b>576.7</b>
Change in gross working capital requirement	-239.7	<b>-157.3</b>
Gross capital expenditure	-58.2	<b>-98.5</b>
Financial investments	-554.4	<b>-32.6</b>
Asset disposals	+41.8	<b>+16.1</b>
Dividends paid	-9.3	<b>-23.2</b>
Other	+112.3	<b>-18.8</b>
<b>Impact on net debt</b>	-351.0	<b>+262.4</b>

<b>Balance sheet items</b> <i>(in € million)</i>	<b>31 December 2005</b>	<b>30 June 006</b>
Shareholders' equity (Group share)	1,390.9	<b>1,805.5</b>
Shareholders' equity (including minority interests)	1,503.1	<b>1,927.9</b>
Net debt	204.7	<b>-57.7</b>
Gearing ratio	13.6%	<b>-3.0%</b>

## **OUTLOOK**

In an environment that remains favourable and despite a production incident at the HKM steel mill that occurred in July (the estimated impact of which on sales is about the same as that of the incident in June), the Group confirms that sales for the second half of 2006 will, barring any unexpected event, be similar to those for the first half.

The EBITDA/sales ratio is expected, excepting unforeseen circumstances, to be at the level of the first half before accounting for annual maintenance operations. The Group stresses that the expenditure associated with such operations is traditionally concentrated in the second half and accounted for in that period.

Beyond 2006, the Group currently does not see any signs of a slowdown in demand, particularly in the oil & gas and power generation markets.

The Group stresses that the investments undertaken with the aim of increasing its heat treatment capacity by 15% (to reach more than 50% of total production in 2007) will enable Vallourec to continue to improve its product mix. The Group will also benefit from the increase in its threading capacity.

Lastly, the planned capital expenditure on a new continuous caster at the Saint-Saulve steel mill (in France) will, by increasing annual steel production capacity by 100,000 tonnes as from 2008, enable the Group to reduce its use of external supplies.

## **2006 INTERIM DIVIDEND**

On 12 September 2006, the Supervisory Board approved the payment of an interim dividend of € 2.0 per share, which will be paid on 20 October 2006. For information, last year the Group paid an interim dividend for the financial year 2005 of € 0.8 per share and the total dividend paid in respect of the financial year 2005 amounted to € 2.24 per share.

The amounts indicated above concerning the dividends paid in respect of the financial year 2005 have been recalculated to take into account the division by 5 of the nominal value of Vallourec's shares on 18 July 2006.

## **MANAGEMENT BOARD**

Mr François Fabre, a member of the Management Board, will retire at the end of September 2006 having worked for Vallourec for more than 40 years. Of particular note is the major role played by Mr Fabre in the successful merger of the seamless tubes divisions of Vallourec and Mannesmann as from the formation, in 1997, of the V & M TUBES joint venture (now wholly owned by Vallourec).

As a result, the Management Board will be composed of the following four members:

- Pierre Verluca, Chairman of the Management Board,
- Bertrand Cantegrit, Chief Financial Officer: Finance, Legal and External Communication,
- Marco Antônio Castello Branco,
- Jean-Pierre Michel.

## **APPENDICES**

Documents accompanying this release:

- Summary consolidated income statement
- Summary consolidated balance sheet

### ***Calendar***

- Consolidated sales for the third quarter of 2006 will be released on 25 October 2006.
- Consolidated sales for the fourth quarter of 2006 will be released on 1 February 2007.

### ***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, 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: MSCI World Index, Euronext 100, CAC Next 20 and SBF 120. FTSE classification: engineering and machinery.*

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# Summary consolidated income statement

(in IFRS – in € million)

VALLOUREC GROUP	H1 2005		H1 2006		Change H1 06 / H1 05
		<i>as % of sales</i>		<i>as % of sales</i>	
Sales	1,975.4		2,717.3		+37.6%
Change in finished goods inventory	124.1	6.3%	118.2	4.3%	-4.8%
Other operating revenues	11.4	0.6%	13.1	0.5%	+14.9%
Purchases consumed	-842.3	42.6%	-990.7	36.5%	+17.6%
Taxes and duties	-26.0	1.3%	-29.3	1.1%	+12.7%
Payroll costs	-350.0	17.7%	-406.7	15.0%	+16.2%
Other operating costs	-430.0	21.8%	-583.5	21.5%	+35.7%
Provisions, net of reversals	-13.0	0.7%	-2.5	0.1%	-80.8%
<b>EBITDA</b>	<b>449.6</b>	<b>22.8%</b>	<b>835.9</b>	<b>30.8%</b>	<b>+85.9%</b>
Depreciation & amortization	-48.7	2.5%	-56.4	2.1%	+15.8%
Impairment of assets and goodwill	0.7		0.1		-85.7%
Assets disposals and restructuring	6.8		2.9		-57.4%
<b>OPERATING INCOME</b>	<b>408.4</b>	<b>20.7%</b>	<b>782.5</b>	<b>28.8%</b>	<b>+91.6%</b>
<b>FINANCIAL INCOME</b>	<b>-10.5</b>		<b>-15.3</b>		<b>+45.7%</b>
<b>INCOME BEFORE TAX</b>	<b>397.9</b>	<b>20.1%</b>	<b>767.2</b>	<b>28.2%</b>	<b>+92.8%</b>
Income tax	-128.3		-269.0		+109.7%
Net income of equity affiliates	-2.6		-3.2		+23.1%
<b>CONSOLIDATED NET INCOME</b>	<b>267.0</b>	<b>13.5%</b>	<b>495.0</b>	<b>18.2%</b>	<b>+85.4%</b>
<b>NET INCOME, GROUP SHARE</b>	<b>144.0</b>		<b>452.6</b>		<b>+214.3%</b>

# Summary consolidated balance sheet

(in IFRS – in € million)

<b>VALLOUREC GROUP</b>					
	31/12/05	30/06/06		31/12/05	30/06/06
<b>Intangible fixed assets</b>	21.2	24.8	<b>Vallourec shareholders' equity (1)</b>	1,390.9	1,805.5
<b>Goodwill</b>	91.0	91.5			
<b>Net tangible fixed assets</b>	919.9	938.0	<b>Minority interests</b>	112.2	122.4
<b>Investments in equity affiliates</b>	48.2	42.3	<b>Total equity</b>	1,503.1	1,927.9
<b>Other non current assets</b>	31.5	31.6			
<b>Deferred tax assets</b>	45.1	22.9	<b>Bank loan LT</b>	469.6	456.4
<b>Total non current assets</b>	1,156.9	1,151.1	<b>Employees benefit</b>	209.8	211.9
			<b>Deferred tax liabilities</b>	53.3	82.9
<b>Inventories &amp; work-in-progress</b>	861.2	953.9	<b>Other provisions &amp; liabilities</b>	5.0	7.3
			<b>Total non current liabilities</b>	737.7	758.5
<b>Trade receivables</b>	906.2	964.8	<b>Provisions</b>	66.5	62.9
<b>Financial instruments assets</b>	1.8	66.3	<b>Bank loan ST</b>	276.4	336.3
<b>Other current assets</b>	116.9	117.4	<b>Trade payables</b>	496.6	498.6
			<b>Financial instruments liabilities</b>	102.3	20.5
<b>Cash &amp; cash equivalents</b>	541.3	850.4	<b>Other current liabilities</b>	401.7	499.2
<b>Total current assets</b>	2,427.4	2,952.8	<b>Total current liabilities</b>	1,343.5	1,417.5
<b>TOTAL ASSETS</b>	3,584.3	4,103.9	<b>TOTAL LIABILITIES</b>	3,584.3	4,103.9
<b>Financial net debt</b>	204.7	-57.7	<b>(1) Net income, Group share</b>	473.0	452.6