



Boulogne-Billancourt, 30 July 2009

Press Release

Vallourec reports Q2 2009 results

- Sales of € 1,082 million (-33% vs. Q2 2008)
- EBITDA of € 238.5 million representing 22% of sales (vs. 26.6% in Q2 2008)
- Strong operating cash flow (€ 413 million)
- Measures reinforced to adapt production and reduce costs

Summary of Q2 2009 results

(Comparison with Q1 2009, Q2 2008 and H1 2008)

<i>in € million</i>	Q2 2009	Q1 2009	Q2 09 / Q1 09	Q2 2008	Q2 09 / Q2 08	H1 2009	H1 2008	H1 09 / H1 08
Sales	1,081.9	1,313.1	-18%	1,619.7	-33%	2,395.0	3,003.3	-20%
EBITDA	238.5	339.3	-30%	430.5	-45%	577.8	772.3	-25%
<i>As % of sales</i>	22.0%	25.8%		26.6%		24.1%	25.7%	
Operating income	184.9	288.2	-36%	390.9	-53%	473.1	701.6	-33%
<i>As % of sales</i>	17.1%	21.9%		24.1%		19.8%	23.4%	
Total net income	126.9	202.9	-37%	263.4	-52%	329.8	462.6	-29%
<i>As % of sales</i>	11.7%	15.5%		16.3%		13.8%	15.4%	
Net income, Group share	123.9	187.2	-34%	255.1	-51%	311.1	448.4	-31%

Information

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Results for the second quarter of 2009 were negatively impacted by the deteriorating economic environment. As anticipated, the Group experienced a further reduction in volume, sales and EBITDA during the second quarter compared to the first quarter of 2009 and compared to prior year.

Positive price and mix effect compensated to some extent the decline in volume and consolidated sales for the quarter were € 1,081.9 million, a decrease of 18% sequentially and 33% year on year. EBITDA of € 238.5 million compared to € 339.3 million in Q1 2009 and € 430.5 million in Q2 2008. Relative to sales, the EBITDA margin showed resilience at 22% compared to 25.8% in Q1 2009.

Net income, Group share amounted to € 123.9 million, versus € 187.2 million in Q1 2009 and € 255.1 million in Q2 2008.

The Group's focus on reducing costs and inventories contributed to strong operating cash-flow during the quarter of € 413.3 million compared to €320.1 million during Q1 2009 and € 186.1 million in Q2 2008. For the first six months, the Group generated operating cash-flow of € 733.4 million, more than double the prior year level (€ 315.8 million). Net debt decreased by €445.3 million during the first half (€ 292.6 million during Q2 2009), which resulted in a positive cash balance of € 98.8 million at 30 June 2009, versus net debt of € 346.5 million at 31 December 2008.

For the first six months of 2009 consolidated sales amounted to € 2,395.0 million, a year on year decrease of 20%. EBITDA was down by 25% year on year to € 577.8 million, which corresponds to an EBITDA / sales margin of 24.1% compared to 25.7% in H1 2008. Net income, Group share amounted to € 311.1 million, a reduction of 31% compared to prior year (€ 448.4 million).

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

“The recessionary environment has created a significant reduction in demand for our products both in industrial activity and in the energy markets worldwide. The rapid adaptation of our production and our costs to match the decline in activity is reflected in the resilience of our EBITDA margin during the first half. However, demand remains weak in most markets and pressure on prices is increasing. As a result, we anticipate that the economic recession will increasingly impact our results in the second half of the year. The adaptation measures that we've deployed during the first half of the year will therefore be strengthened.

Its strong balance sheet and cash-flow generation enable Vallourec to pursue strategic investments and acquisitions, aimed at improving competitiveness and preparing the Group for demand recovery.”

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MARKET ENVIRONMENT

Oil & Gas

The sharp drop in oil prices at the end of 2008 and early 2009, placed significant stress on oil and gas exploration and production projects, resulting in numerous project delays, cost reduction efforts and inventory optimisations on the part of oil and gas companies. The rebound in the oil price, seen during the second quarter of 2009, has not at this stage, altered this situation. At the end of June, the international rig count (excluding North America) had declined by 12% compared to June 2008.

In the US, the oversupply of the natural gas market kept gas prices at depressed levels, below \$4/Mmbtu on average during Q2 2009. The consequent reduction in the number of active rigs, down over 50% from the 2008 peak, combined with the high level of distributors' inventories, have led to a sharp reduction in OCTG apparent demand and to increasing pressure on prices. Although domestic producers have reacted rapidly by reducing production, a pick up in orders is not expected before 2010.

Power Generation

Demand for tubes for power plants has declined due to the delay of several new projects, excess inventories held by certain clients, and a reduced sense of urgency caused by the reduction in global electricity consumption anticipated for 2009. Nevertheless, the long-term demand fundamentals, to meet the growing energy needs of emerging markets combined with the need to replace obsolete facilities in OECD countries, remain intact.

Other market segments

Industrial activity remains extremely weak, particularly affecting mechanical engineering, construction and the automotive sector. De-stocking measures by both end users and distributors persist, accentuating the low level of demand.

ACTIVITY

As a result of weaker demand, sales volume of rolled tubes in Q2 2009 totalled 371 thousand tonnes, compared to 488 thousand tonnes in the previous quarter (-24%) and the record level of 740 thousand tonnes in Q2 2008 (-50%).

Consolidated sales for the quarter totalled € 1,082 million, down 33% compared to Q2 2008, which compares favourably to the volume decline as the combined price and mix effect remained positive. The decrease in sales consisted of a negative volume effect (-50%), partly offset by positive effects from scope (+1.0%), currency (+0.7%) and combined price and mix effect (+31.4%). In Q2 2009, Energy (Oil & Gas and Power generation) represented 78% of total sales, versus 65% of total sales in Q2 2008 and 72% of sales in Q1 2009.

Compared to Q1 2009, the decrease in sales was 18%. The combined effect of prices related to backlog orders together with the higher proportion of energy sales partly compensated the 24% decline in volume.

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Sales by market

(Comparison with Q1 2009, Q2 2008 and H1 2008)

<i>in € million</i>	Q2 2009	Q1 2009	Q2 09 / Q1 09	Q2 2008	Q2 09 / Q2 08	H1 2009	H1 2008	H1 09 / H1 08
Oil & Gas	561	653	-14%	734	-24%	1,214	1,349	-10%
Power generation	284	299	-5%	327	-13%	583	599	-3%
Total Energy	845	952	-11%	1061	-20%	1,797	1,948	-8%
Petrochemicals	89	140	-36%	163	-45%	229	302	-24%
Mechanical	73	129	-43%	195	-63%	202	380	-47%
Automotive	38	44	-14%	94	-60%	82	190	-57%
Other	37	48	-23%	107	-65%	85	183	-54%
Total non-Energy	237	361	-34%	559	-58%	598	1055	-43%
Total	1,082	1,313	-18%	1,620	-33%	2,395	3,003	-20%

In **Oil & Gas**, Q2 2009 sales totalled € 561 million compared to € 653 million in Q1 2009 and € 734 million in Q2 2008. In the United States, the sharp drop in the active rig count translated into a high level of inventories held by distributors and a rapid reduction in sales. Nevertheless, premium threading activity remained satisfactory. In the rest of the world, sales declined to a lesser extent and were resilient in Brazil.

In **Power generation**, Q2 2009 sales were € 284 million compared to € 299 million in Q1 2009 and € 327 million in Q2 2008, down 5% and 13% respectively. Strong sales in Europe and South Africa were offset by the decline in sales to China, where inventories of tubes, built-up during 2008, remain at high levels.

In **Petrochemicals, Mechanical engineering, Automotive, and "Other"**, total non-energy sales amounted to € 237 million, down 34% sequentially and down 58% compared to prior year. Sales continued to be impacted by the sharp slowdown in industrial activity, combined with measures by both end users and distributors, to reduce inventories.

RESULTS

EBITDA for Q2 2009 declined by 29.7% sequentially and by 44.6% compared to prior year to € 238.5 million, mostly due to volume decline. Relative to sales, the EBITDA margin showed resilience at 22%. This performance was primarily due to a favourable price / mix effect and to rapid cost adaptation.

Total operating costs decreased by 31.5% compared to prior year, reflecting the flexibility of the Group's cost structure. On a sequential basis (compared to Q1 2009), total operating costs decreased by € 163.8 million (-16.8%), in line with lower sales. Purchases consumed decreased by 26.6% as a result of both lower volumes and lower prices of raw materials. All other costs, including personnel costs, decreased by 10.4%. Adaptation measures resulted in a 10% reduction in working hours compared to Q1 2009.

Total net income in Q2 2009 reached € 126.9 million compared to € 202.9 million in Q1 2009 (-37.5%) and € 263.4 million in Q2 2008 (-51.8%). Net income, Group Share amounted to € 123.9 million.

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Cash flow statement

	Q2 2009	Q1 2009	Q2 2008	H1 2009	H1 2008
<i>in € million</i>					
Gross cash flow from operations	175.6	296.7	289.1	472.3	487.2
Change in gross WCR [+ decrease, - increase]	+ 237.7	+23.4	-103.0	+ 261.1	-171.4
Operating cash flows	413.3	320.1	186.1	733.4	315.8
Gross capital expenditure	-129.7	-126.8	-99.6	-256.5	-206.4
Financial Investments	0.0	-8.5	-519.9	-8.5	-519.9
Dividends paid	-6.5	-22.6	-375.7	-29.1	-379.2
Asset disposals & other elements	15.5	-9.5	12.8	6.0	15.2
Change in net debt [+ decrease, - increase]	+ 292.6	+152.7	-796.3	+445.3	-774.5

The Group generated a strong level of operating cash flow of € 413.3 million. Working capital requirements were reduced by € 237.7 million during the quarter and by € 261.1 million for the year to date.

Capital expenditure, including expenditure relating to the construction of VSB integrated steel and tube mill in Brazil, amounted to € 129.7 million during the quarter, bringing total capital expenditure to € 256.5 million year to date.

As a result of the cash flow generated by the Group, net debt decreased by € 445.3 million since the beginning of the year (of which € 292.6 million during Q2 2009), resulting in a positive cash balance of € 98.8 million at the end of June. Net debt was € 346.5 million at 31 December 2008.

At the end of June, the Group's cash exceeded its overdrafts and short-term bank borrowings by € 820.9 million. More than 95% of the € 722.1 million bank loans and other borrowings have a maturity in excess of two years. Vallourec maintains its undrawn confirmed credit lines of around € 1 billion with maturities in 2012 and 2013.

Balance sheet items	30/06/09	31/03/09	31/12/08
<i>in € million</i>			
Shareholders' equity (Group share)	3,277.8	3,377.6	3,132.8
Shareholders' equity (including minority interests)	3,499.8	3,681.2	3,232.0
Net debt	-98.8	193.8	346.5
Net debt / equity	-2.8%	5.4%	10.7%

EVENTS POST 30 JUNE 2009

On 2 July 2009, Vallourec increased its strategic shareholding in PT Citra Tubindo Tbk (PTCT) to 78.2% of the capital. The company has manufacturing facilities located in Batam, Indonesia, providing heat treatment and threading of oil country tubular goods (OCTG) together with oil-field accessories, serving the Oil & Gas industry throughout the Asia-Pacific region. Leader in the Indonesian market, PTCT has been a VAM[®] licensee since 1985. This strategic investment allows Vallourec to strengthen its presence in Indonesia and the Asia-Pacific region, where oil

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and gas exploration and production are expanding, under technical conditions requiring increasingly premium products and solutions.

Payment of the 2008 dividend was made on 7 July 2009, through the delivery of 2,783,484 new shares (5.2% of the capital) and a cash amount of € 111.5 million.

2009 OUTLOOK

In view of the seasonality combined with the current economic environment, Vallourec anticipates a low point in activity in the third quarter 2009.

The Group is reinforcing the cost reduction measures taken during the first half of the year and will further reduce working hours with prolonged summer plant closures and the extension of short-time working in Europe. Despite the effect of cost reductions, continuing low volumes and pricing pressure will result in lower sales and EBITDA during the second half. .

Vallourec is further reducing its working capital requirements which, coming from a strong balance sheet position, will enable it to finance its strategic capex programme and to prepare for demand 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

- 24 September: Investor Day
- 12 November: release of 2009 Q3 results

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Vallourec's 2008 Security & Environment Report is available on our website
<http://www.vallourec.fr/uk/news/publications.asp>

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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>	2009	2008	Δ 09 / 08
Q1	488.3	658.1	- 25.8%
Q2	370.5	740.4	-50.0%
Q3		671.6	
Q4		696.3	
Total		2,766.4	

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Summary consolidated income statement

(under IFRS – in € million)

VALLOUREC	Q2 2009	Q1 2009	Q2 2008	Δ Q2'09 / Q1'09	Δ Q2'09 / Q2'08
Sales	1,081.9	1,313.1	1,619.7	-17.6%	-33.2%
Production taken into inventory	-36.6	-5.7	-6.9		
Other operating revenues	7.2	9.7	5.5		
Total operating costs, of which	-814.0	-977.8	-1,187.8	-16.8%	-31.5%
Purchases consumed	-315.3	-429.7	-616.8	-26.6%	-48.9%
Other costs, including	-472.9	-527.9	-572.7	-10.4%	-17.4%
<i>Taxes and duties</i>	-11.3	-14.1	-14.5	-19.9%	-22.1%
<i>Payroll costs</i>	-202.7	-213.8	-215.9	-5.2%	-6.1%
<i>Other operating costs</i>	-258.9	-300.0	-342.3	-13.7%	-24.4%
Provisions net of reversals	-25.8	-20.2	1.7	27.7%	n.r.
EBITDA	238.5	339.3	430.5	-29.7%	-44.6%
EBITDA as % of sales	22.0%	25.8%	26.6%		
Depreciation	-45.3	-45.0	-40.0		
Amortization & impairment of assets	-4.0	-1.5			
Asset disposals and restructuring	-4.3	-4.6	0.4		
OPERATING INCOME	184.9	288.2	390.9	-35.8%	-52.7%
FINANCIAL INCOME	0.7	6.7	1.2		
INCOME BEFORE TAX	185.6	294.9	392.1	-37.1%	-52.7%
Income tax	-59.3	-95.7	-133.9	-38.0%	-55.7%
Share in net income of equity affiliates	0.6	3.7	5.2		
TOTAL CONSOLIDATED NET INCOME	126.9	202.9	263.4	-37.5%	-51.8%
NET INCOME, GROUP SHARE	123.9	187.2	255.1	-33.8%	-51.4%

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Summary consolidated income statement

(under IFRS – in € million)

VALLOUREC	H1 2009	as a % of sales	H1 2008	as a % of sales	Δ H1'09 / H1'08
Sales	2,395.0		3,003.3		-20.3%
Production taken into inventory	-42.3	-1.8%	39.9	1.3%	
Other operating revenues	16.9	0.7%	13.9	0.5%	
Total operating costs, of which	-1,791.8		-2,284.8		-21.6%
Purchases consumed	-745.0	31.1%	-1,163.8	38.8%	-36.0%
Other costs, including	-1,000.8	41.8%	-1,125.9	37.5%	-11.1%
<i>Taxes and duties</i>	-25.4	1.1%	-28.1	0.9%	-9.6%
<i>Payroll costs</i>	-416.5	17.4%	-414.2	13.8%	0.6%
<i>Other operating costs</i>	-558.9	23.3%	-683.6	22.8%	-18.2%
Provisions net of reversals	-46.0	1.9%	4.9	-0.2%	ns
EBITDA	577.8	24.1%	772.3	25.7%	-25.2%
Depreciation	-90.3	3.8%	-71.1	2.4%	27.0%
Amortization & Impairment of assets	-5.5				
Asset disposals and restructuring	-8.9		0.4		
OPERATING INCOME	473.1	19.8%	701.6	23.4%	-32.6%
FINANCIAL INCOME	7.4		-16.5		
INCOME BEFORE TAX	480.5	20.1%	685.1	22.8%	-29.9%
Income tax	-155.0		-228.7		
Share in net income of equity affiliates	4.3		6.2		
TOTAL CONSOLIDATED NET INCOME	329.8	13.8%	462.6	15.4%	-28.7%
NET INCOME, GROUP SHARE	311.1		448.4		-30.6%

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Summary consolidated balance sheet

(under IFRS – in € million)

VALLOUREC

	30/06/09	31/12/08		30/06/09	31/12/08
Intangible fixed assets	240.5	260.9	Shareholders' equity ⁽¹⁾	3,277.8	3,132.8
Goodwill	303.8	308.3			
Property, plant and equipment	1,901.4	1,641.0	Minority interests	222.0	99.2
Investments in equity affiliates	89.2	76.9	Total equity	3,499.8	3,232.0
Other non-current assets	44.7	38.6			
Deferred tax assets	37.5	36.9	Bank loans and other borrowings	722.1	650.2
Total non-current assets	2,617.1	2,362.6	Employee benefits	149.8	146.6
			Deferred tax liabilities	89.4	84.0
Inventories and work-in-progress	1,287.1	1,443.6	Other provisions and liabilities	7.3	7.7
			Total non-current liabilities	968.6	888.5
Trade receivables	873.3	1,203.6	Provisions	128.9	93.2
Derivatives - assets	35.9	26.3	Overdrafts and other short-term bank borrowings	222.4	224.4
Other current assets	277.2	200.6	Trade payables	472.4	721.8
			Derivatives-liabilities	43.0	113.3
Cash and cash equivalents	1,043.3	528.1	Other current liabilities	798.8	491.6
Total current assets	3,516.8	3,402.2	Total current liabilities	1,665.5	1,644.3
TOTAL ASSETS	6,133.9	5,764.8	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,133.9	5,764.8
Net debt	-98.8	346.5	⁽¹⁾ Net income, Group share	311.1	967.2

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