

PRESS RELEASE



V A L L O U R E C

2005 ANNUAL RESULTS

An outstanding year with record results

- Sales: € 4,307.4 million (+41.8%)
- EBITDA: € 1,060.6 million (+133.3%)
- Total net income: € 632.4 million (+138.5%)
- Net income, Group share: € 473.0 million (+226.2%)

Proposed dividend for financial year 2005: € 11.2 per share (€ 3.2 in 2004)

Boulogne-Billancourt, 8 March 2006 - Vallourec, world leader in the production of seamless steel tubes and tubular products for specific industrial applications, today announced its results for the financial year 2005. The consolidated financial statements, which were presented by Vallourec's Management Board to its Supervisory Board on 7 March 2006, 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 2005 increased by 41.8% to € 4,307.4 million. EBITDA rose by 133.3% to € 1,060.6 million, giving an EBITDA/sales ratio of 24.6% compared with 15.0% in 2004. Total net income amounted to € 632.4 million compared with € 265.2 million in 2004. Group share of net income, which benefited from the positive effect of the acquisition of the 45% stake in V & M TUBES as from 1 July 2005, more than tripled to € 473.0 million.

Income statement (in € million)	2004		2005		Change 2005 / 2004
		as a % of sales		as a % of sales	
Sales	3,037.8		4,307.4		+41.8%
EBITDA	454.6	15.0%	1,060.6	24.6%	+133.3%
Operating income	355.2	11.7%	965.3	22.4%	+171.8%
Total net income	265.2	8.7%	632.4	14.7%	+138.5%
Net income, Group share	145.0	N/A.	473.0	N/A.	+226.2%

ACTIVITY

The following changes occurred in the Group structure during 2005:

- the disposal, effective on 1 January 2005, of the Group's automotive components activities in Brazil and Argentina, which generated sales of € 71 million in 2004;
- the consolidation, as of 1 October 2005, of the assets of OMSCO, whose fourth quarter 2005 sales totalled € 28 million.

Sales in 2005 were 41.8% higher than in 2004. This increase breaks down as follows:

- scope effect: -1.5%
- volume effect: +6.0%
- mix, price and currency effect: +35.7%

The effects of the selling price increases negotiated to pass on the rises in raw material costs only had a limited impact on the financial statements for the first half of 2004, which explains the high level of the mix, price and currency effect in the first half of 2005 (+33.1%). This effect was even higher in the second half of 2005 (+38.3% compared with the second half of 2004) as Vallourec, benefiting from a favourable environment, was able to continue to apply further selling price increases in 2005, particularly in Brazil and the US, and to constantly improve its product mix.

Sales by market

	2005 sales (in € million)	Change 2005 / 2004	Contribution to total sales for 2005
Oil and gas	1,829	+65.4% ⁽¹⁾	42.5%
Power generation	724	+55.0%	16.8%
Total Energy	2,553	+62.3%	59.3%
Mechanical engineering	573	+33.9%	13.3%
Chemicals and petrochemicals	461	+38.0%	10.7%
Automotive	483	-3.6% ⁽²⁾	11.2%
Other	237	+17.3%	5.5%
Total Non-Energy	1,754	+19.7%	40.7%
Total	4,307	+41.8%	100%

⁽¹⁾ at constant consolidation scope (excluding OMSCO in the 4th quarter of 2005): +62.8%

⁽²⁾ at constant consolidation scope (excluding the automotive components activities in Brazil and Argentina in 2004): +12.3%

In the oil and gas sector, Vallourec achieved strong growth in 2005 in North America and the rest of the world thanks to high volumes and a sharp rise in selling prices, particularly in the case of high value-added products. Sales increased by 65.4% over the year as a whole and were 35.7% higher in the second half than in the first.

Sales in the power generation sector were 55.0% higher in 2005 than in 2004, reflecting the strength of this market, particularly in China, which continues to represent more than 50% of Vallourec's sales in this sector. In the rest of the world, sales also increased due to revamping and maintenance programmes.

In 2005, pipes for oil and gas drilling and extraction and tubes for power plants together represented about 59.3% of Vallourec's total sales, illustrating the Group's policy of focusing increasingly on the energy sectors (by comparison, the Group's sales from these activities accounted for only 34.6% of total sales in 2000).

Sales in mechanical engineering, which is essentially a European business, recorded particularly strong growth in the first half of 2005 before falling slightly in the second half due to seasonal factors and an inventory adjustment by Vallourec's customers. In the year as a whole, sales increased by 33.9% compared with 2004.

In the chemicals and petrochemicals sector, where Vallourec is becoming increasingly involved in major projects, sales increased by 38.0% in 2005.

Tubes and components for the automotive industry, on the other hand, suffered in 2005 from the fact that the number of new cars registered in Western Europe remained stable (-0.7%) and, to an even greater extent, from the fall in vehicles sold by its two main customers in this same market: PSA and Renault. At constant consolidation scope, Vallourec's sales, however, grew by 12.3%.

RESULTS

Operating costs increased by 27.8% compared with 2004. This increase consists of:

- a 36.8% rise in purchases of raw materials, due mainly to a sharp increase in prices (even though prices tended to stabilize in 2005, average purchase prices in 2005 were considerably higher than average 2004 prices);
- a 20.1% rise in all other operating costs, due, in particular, to an increase in transportation and energy costs.

The increase in selling prices and Vallourec's enhanced product mix were the main causes of growth in EBITDA, which increased by 133.3% to € 1,060.6 million (€ 454.6 million in 2004). EBITDA therefore represented a record level at 24.6% of sales in 2005 compared with 15.0% in 2004.

The effective tax rate was 32.8% compared with 25.2% in 2004, since the Group had already used up almost all of its tax credits.

Total net income increased by 138.5% to € 632.4 million.

Due particularly to the positive effect of the acquisition of the 45% stake in V & M TUBES as from 1 July 2005, Group share of net income more than tripled to € 473.0 million (compared with € 145.0 million in 2004).

If the acquisition had been effective on 1 January 2005, Vallourec net income, Group share, would have amounted to € 576.7 million in 2005, instead of € 473.0 million, and the total net income would have been hardly unchanged.

Despite an increase in gross capital expenditure of 75.3% to € 188.6 million in 2005 and financial investments totalling € 651.3 million (acquisition of the 45% stake in V & M TUBES and OMSCO's assets), the Group's total net debt grew by only € 259.3 million in 2005 since the rights offering in July 2005, which generated a net amount of € 123 million, enabled the Group to limit its recourse to debt.

The Group's cash position thus changed from positive net cash of € 54.6 million at 31 December 2004 to net debt of € 204.7 million at 31 December 2005, representing a gearing ratio (net debt / shareholders' equity) of 13.6%.

Cash flow statement <i>(in € million)</i>	2004	2005
Cash flow	370.6	805.2
Change in gross working capital requirement	-105.0	-279.2
Gross capital expenditure	-107.6	-188.6
Financial investments	-2.9	-651.3
Asset disposals	+10.6	+41.8
Capital increase	--	+123.7
Dividends paid	-48.8	-113.6
Other	+11.1	+2.7
Impact on net debt	+128.0	-259.3

Balance sheet items <i>(in € million)</i>	31/12/2004	31/12/2005
Shareholders' equity (Group share)	812.9	1,391.0
Shareholders' equity (including minority interests)	1,312.6	1,503.1
Net debt	-54.6	204.7
Gearing ratio	-4.2%	13.6%

OUTLOOK

The favourable environment from which the Group's activities have benefited over the last two years looks set to continue and has resulted, in particular, in long order books in the oil & gas (excluding North America) and power generation sectors. Fundamentals in these sectors remain very positive, sustained overall by energy consumption requirements.

Against this backdrop, Vallourec decided to increase its 2006 gross capital expenditure budget by around 30% in order to boost significantly its high value-added finishing capacity: the Group's heat treatment capacity is expected to increase eventually by 15%, whilst production at the Changzhou plant in China (finishing of tubes for power plants) will begin during the year.

The demand for drill pipes and well equipment is driven by the increase in oil companies exploration and production costs and by the increasingly difficult well extraction conditions (deep wells, offshore, deviated wells, etc.). Against this backdrop, prices of products for these markets are expected to remain high, or even be further increased in the case of high value-added products such as drill pipes, for example.

The strong demand for products for power plants reflects the significant number of programmes to build new plants and refurbish existing plants.

In view of the above, sales in the first half of 2006 should continue to grow as compared with the first half of 2005 (€ 1,975 million) at a rate close to the annual growth achieved the previous year. The EBITDA / sales ratio for the first half of 2006 is expected to be similar to that for the full year 2005.

As of today, demand for the second half of 2006 looks like remaining strong and sales are expected to stabilize at the high level achieved in the first half of 2006.

Vallourec will benefit in 2006 from the effect over a full year of the positive impact on net income, Group share, of the purchase of the 45% stake in V & M TUBES.

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 SMFI, which specializes in oil and gas drilling products, is progressing as planned.

DIVIDEND

Vallourec has decided to submit for approval to the General Meeting to be held on 1 June 2006 the payment of a dividend of € 11.2 per share in respect of the financial year 2005, i.e. 3.5 times the 2004 dividend (€ 3.2 per share). After taking into account the interim dividend of € 4.0 per share already paid on 12 October 2005, the balance remaining to be paid is € 7.2 per share, which will be paid on 5 July 2006.

In September 2006, the Supervisory Board will examine the possibility of paying, during the second half of 2006, an interim dividend for the financial year 2006.

DIVISION OF THE NOMINAL VALUE OF VALLOUREC'S SHARES

At its meeting on 7 March 2006, the Supervisory Board decided to propose to the General Meeting to be held on 1 June 2006 the division by 5 of the nominal value of Vallourec's shares with effect from 18 July 2006. The effect of this would be that each shareholder would be allocated, on that date, 5 new Vallourec shares with a nominal value of € 4 per share for each former share with a nominal value of € 20 per share.

MANAGEMENT BOARD

The Supervisory Board has appointed, starting from 1 April 2006, Messrs. Bertrand Cantegrit, Marco Antônio Castello Branco and Jean-Pierre Michel as members of the Management Board, along with the present members Mr. Pierre Verluca, Chairman of the Management Board, and Mr. François Fabre.

APPENDICES

Documents accompanying this release:

- Summary consolidated income statement
- Summary consolidated balance sheet

Calendar

- Consolidated sales for the first quarter of 2006 will be released on 26 April 2006.
- The General Meeting will be held on 1 June 2006.
- Consolidated sales for the second quarter of 2006 will be released on 27 July 2006.
- Consolidated results for the first half of 2006 will be released on 13 September 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)

VALLOUREC GROUP	2004		2005		Variation 2005 / 2004
		<i>as % of sales</i>		<i>as % of sales</i>	
Sales	3,037.8		4,307.4		+41.8%
Change in finished goods inventory	65.0	2.1%	147.8	3.4%	+127.4%
Other operating revenues	26.1	0.9%	24.1	0.6%	-7.7%
Purchases consumed	-1,242.3	40.9%	-1,699.3	39.5%	+36.8%
Taxes and duties	-47.8	1.6%	-53.0	1.2%	+10.9%
Payroll costs	-618.9	20.4%	-716.4	16.6%	+15.8%
Other operating costs	-767.6	25.3%	-948.5	22.0%	+23.6%
Provisions, net of reversals	2.3	-0.1%	-1.5	0.0%	
EBITDA	454.6	15.0%	1,060.6	24.6%	+133.3%
Depreciation & amortization	-89.0	2.9%	-99.2	2.3%	+11.5%
Impairment of assets and goodwill	-0.4		0.2		
Assets disposals and restructuring	-10.0		3.7		
OPERATING INCOME	355.2	11.7%	965.3	22.4%	+171.8%
FINANCIAL INCOME	-0.9		-26.6		
INCOME BEFORE TAX	354.3	11.7%	938.7	21.8%	+164.9%
Income tax	-89.4		-307.5		+244.0%
Net income of equity affiliates	0.3		1.2		+300.0%
CONSOLIDATED NET INCOME	265.2	8.7%	632.4	14.7%	+138.5%
NET INCOME, GROUP SHARE	145.0		473.0		+226.2%

Summary consolidated balance sheet

(in IFRS – in € million)

VALLOUREC GROUP					
	31/12/04	31/12/05		31/12/04	31/12/05
Intangible fixed assets	10.8	21.2	Vallourec shareholders' equity (1)	812.9	1,391.0
Goodwill	47.3	91.0			
Net tangible fixed assets	733.5	919.9	Minority interests	499.7	112.1
Investments in equity affiliates	52.1	48.2	Total equity	1,312.6	1,503.1
Other non current assets	33.5	31.5			
Deferred tax assets	17.7	45.1	Bank loan LT	189.8	469.6
Total non current assets	894.9	1,156.9	Employees benefit	198.9	209.8
			Deferred tax liabilities	38.9	53.3
Inventories & work-in-progress	593.5	861.2	Other provisions & liabilities	4.9	5.0
			Total non current liabilities	432.5	737.7
Trade receivables	639.9	906.2	Provisions	65.0	66.5
Financial instruments assets		1.8	Bank loan ST	240.6	276.4
Other current assets	137.2	116.9	Trade payables	402.7	496.6
			Financial instruments liabilities		102.3
Cash & cash equivalents	485.0	541.3	Other current liabilities	297.1	401.7
Total current assets	1,855.6	2,427.4	Total current liabilities	1,005.4	1,343.5
TOTAL ASSETS	2,750.5	3,584.3	TOTAL LIABILITIES	2,750.5	3,584.3
Financial net debt	-54.6	204.7	(1) Net income, Group share	145,0	473,0