



Q2 / H1 2015 results

Investor Presentation

30 July 2015

Information

- **Full year consolidated financial statements at 31 December are audited**
- **Half year financial statements are subject to limited review by statutory auditors**
- **Quarterly financial statements are unaudited and are not subject to any review**
- **Unless otherwise specified, indicated variations are expressed in comparison with the same period of the previous year**

Information and Forward-Looking Reflections

This document contains forward-looking reflections and information. By their nature, these reflections and information include financial forecasts and estimates as well as the assumptions on which they are based, statements related to projects, objectives and expectations concerning future operations, products and services or future performance. Although Vallourec's management believes that these forward-looking reflections and information are reasonable, Vallourec cannot guarantee their accuracy or completeness and investors in Vallourec are hereby advised that these forward-looking reflections and information are subject to numerous risks and uncertainties that are difficult to foresee and generally beyond Vallourec's control, which may mean that the actual results and developments differ significantly from those expressed, induced or forecasted in the forward-looking reflections and information. These risks include those developed or identified in the public documents filed by Vallourec with the AMF, including those listed in the "Risk Factors" section of the Registration Document filed with the AMF on 10 April 2015 (N° D.15-0315).

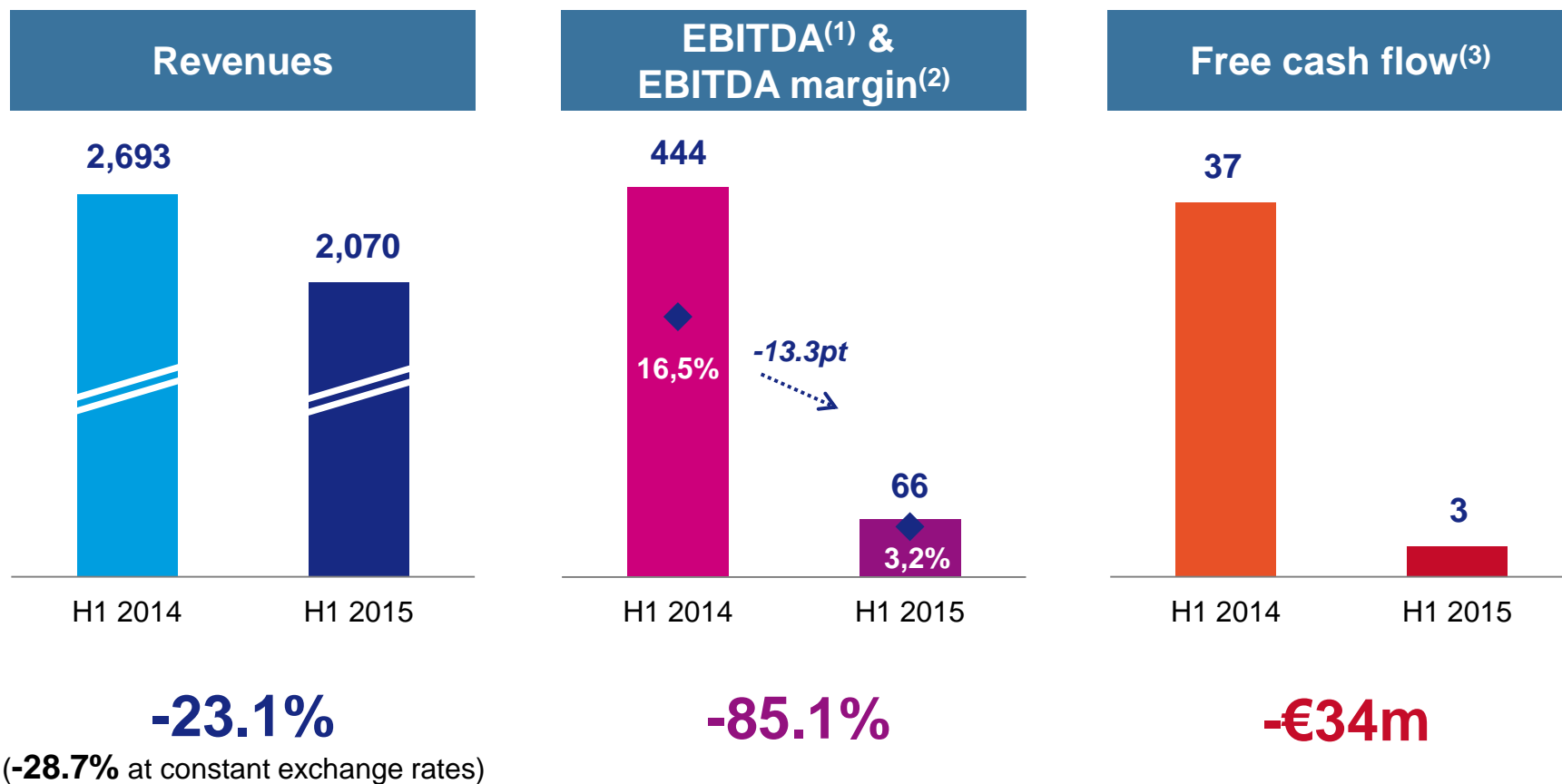


H1 2015 at a glance



H1 2015 financial results strongly impacted by challenging market conditions

In millions of €



Vallourec is implementing its plans

ACTIONS TO FACE CYCLICAL FACTORS

▪ **Short term measures**

- Flexibility levers to adapt the mills to the low load, i.e:
 - Reduction in working hours
 - Rolling mills stoppage
 - Advanced maintenance works
 - Reduction in contractors, ...

▪ **Focus on cash & liquidity**

- Working capital requirement strong reduction
- 2015 capex reduction to around €300m
- Additional €90m multi-currency revolving facility signed in June 2015

▪ **Global staff reduction of 1,600 jobs over H1 2015, incl. close to 1,000 permanent jobs**

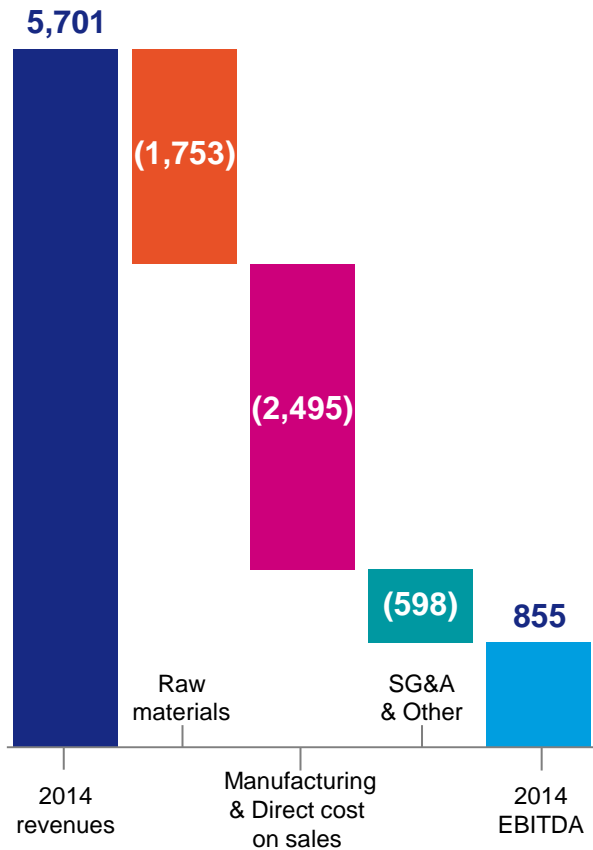
ACTIONS TO FACE STRUCTURAL FACTORS

▪ **Valens**

- European industrial plan announced in April 2015, European capacity to be reduced by 1/3rd
- Costs excl. raw material to be reduced by 10% by 2017
- Cash use optimization: capex average of €350m p.a.

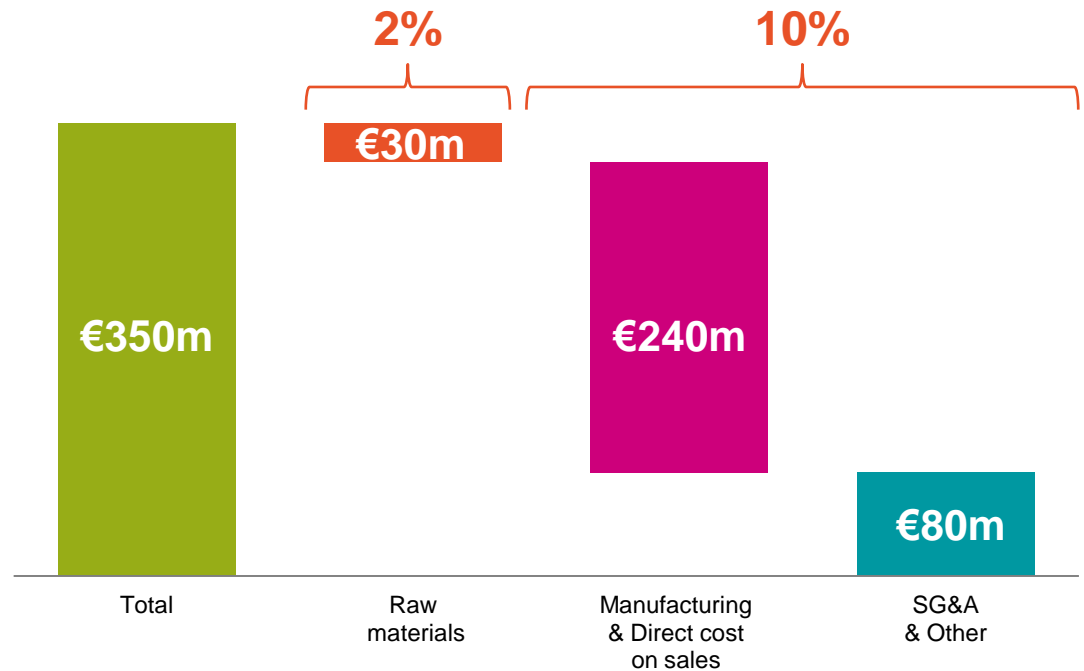
Valens - Structurally reduce cost base

2014 cost base



2-year cost reduction targets⁽¹⁾

- >450 initiatives o/w 2/3rd started
- Targeted savings of 10% of added costs confirmed



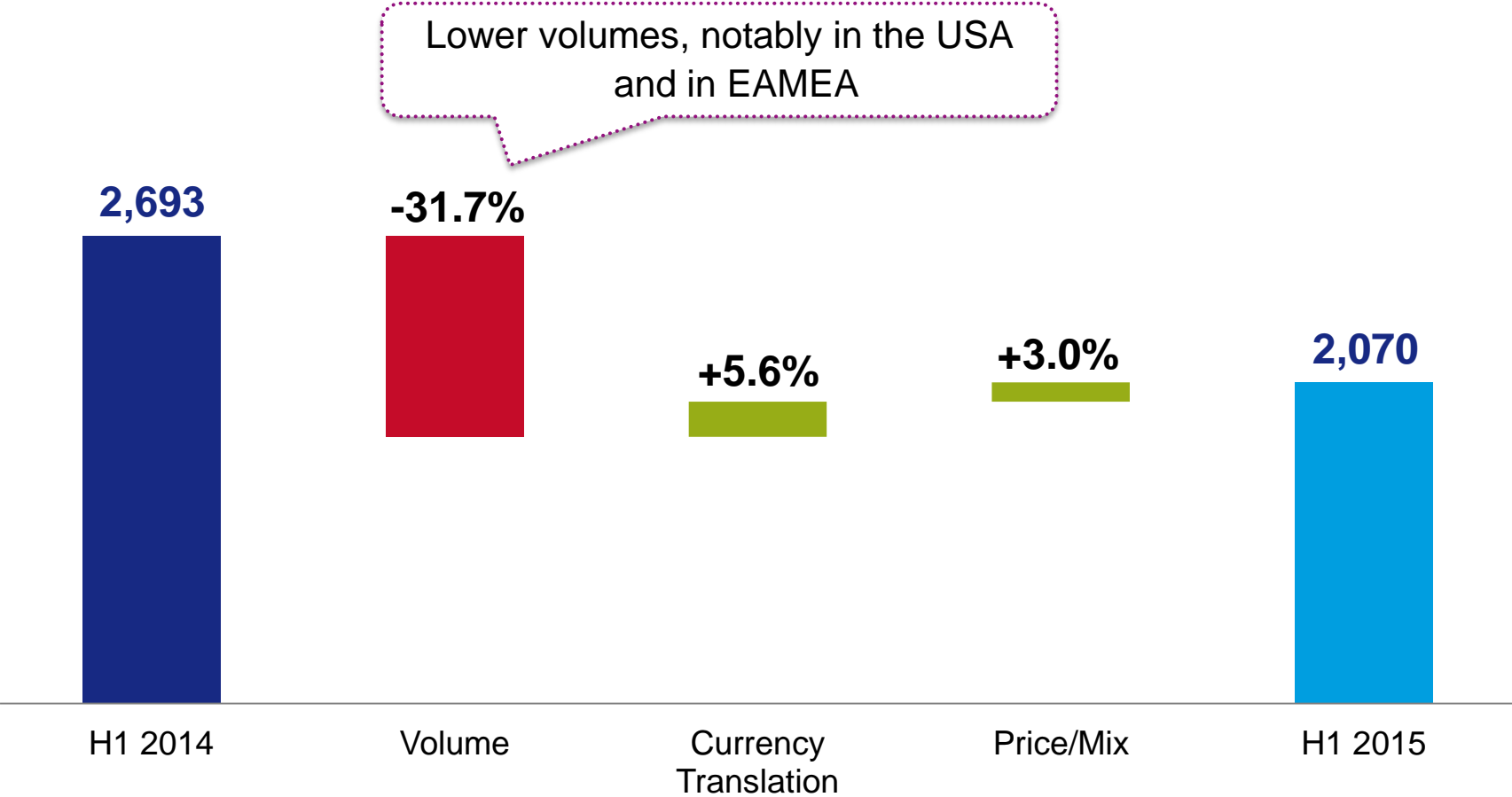


Focus on H1 2015 financial results



Revenues evolution severely impacted by drop in volumes

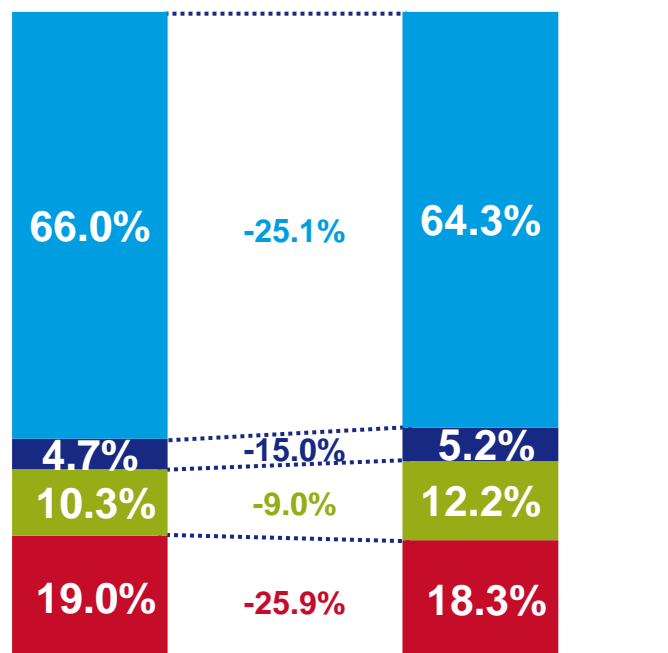
In millions of €, comparison year-on-year



Revenues breakdown for H1 2015

As % of total Group revenues, and change in % (comparison year-on-year)

Revenues by market

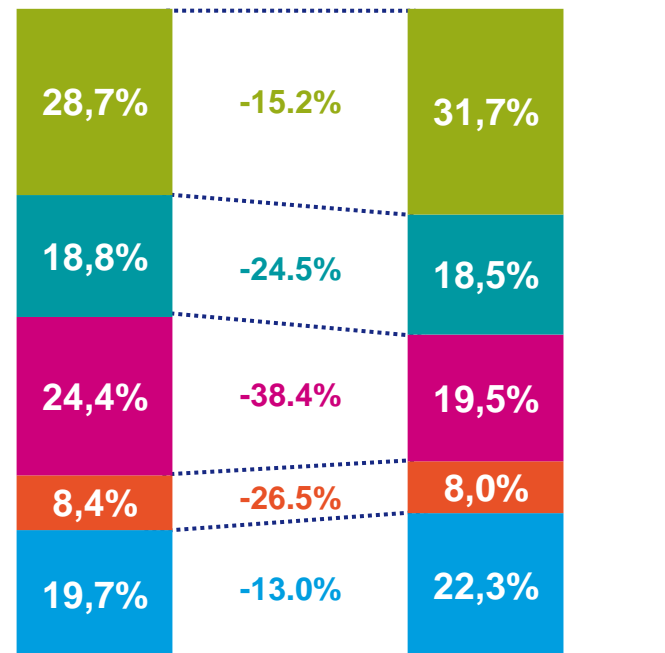


H1 2014

H1 2015



Revenues by region



H1 2014

H1 2015



H1 2015: from Revenues to EBITDA

<i>In millions of €</i>	H1 2015 ⁽¹⁾	H1 2014	Change YoY
Revenues	2,070	2,693	-23.1%
Industrial margin	336	733	-54.2%
<i>As % of revenues</i>	16.2%	27.2%	-11.0pt
SG&A ⁽²⁾	(264)	(273)	-3.3%
<i>As % of revenues</i>	12.8%	10.1%	+2.7pt
EBITDA	66	444	-85.1%
<i>As % of revenues</i>	3.2%	16.5%	-13.3pt

■ EBITDA and margin down:

- Lower revenues: strong negative volume effect, notably in EAMEA and the USA, together with iron ore price decrease in Brazil
- Mills operating well below production capacity in H1 2015 leading to inefficiencies and under-absorption of fixed costs
- Lower SG&A (-11.2% y-o-y in Q2) despite unfavourable exchange rates

H1 2015: from EBITDA to Net Income

<i>In millions of €</i>	H1 2015 ⁽¹⁾	H1 2014	Change YoY
EBITDA	66	444	-85.1%
Depreciation of industrial assets	(149)	(148)	+0.7%
Other (amortization, exceptional, restructuring, impairment...)	(145)	(31)	na
Operating income (loss)	(228)	265	na
Financial income (loss)	(37)	(31)	+19.4%
Income tax	(15)	(74)	-79.7%
Non-controlling interests	(5)	16	na
Net income (loss), Group share	(275)	144	na

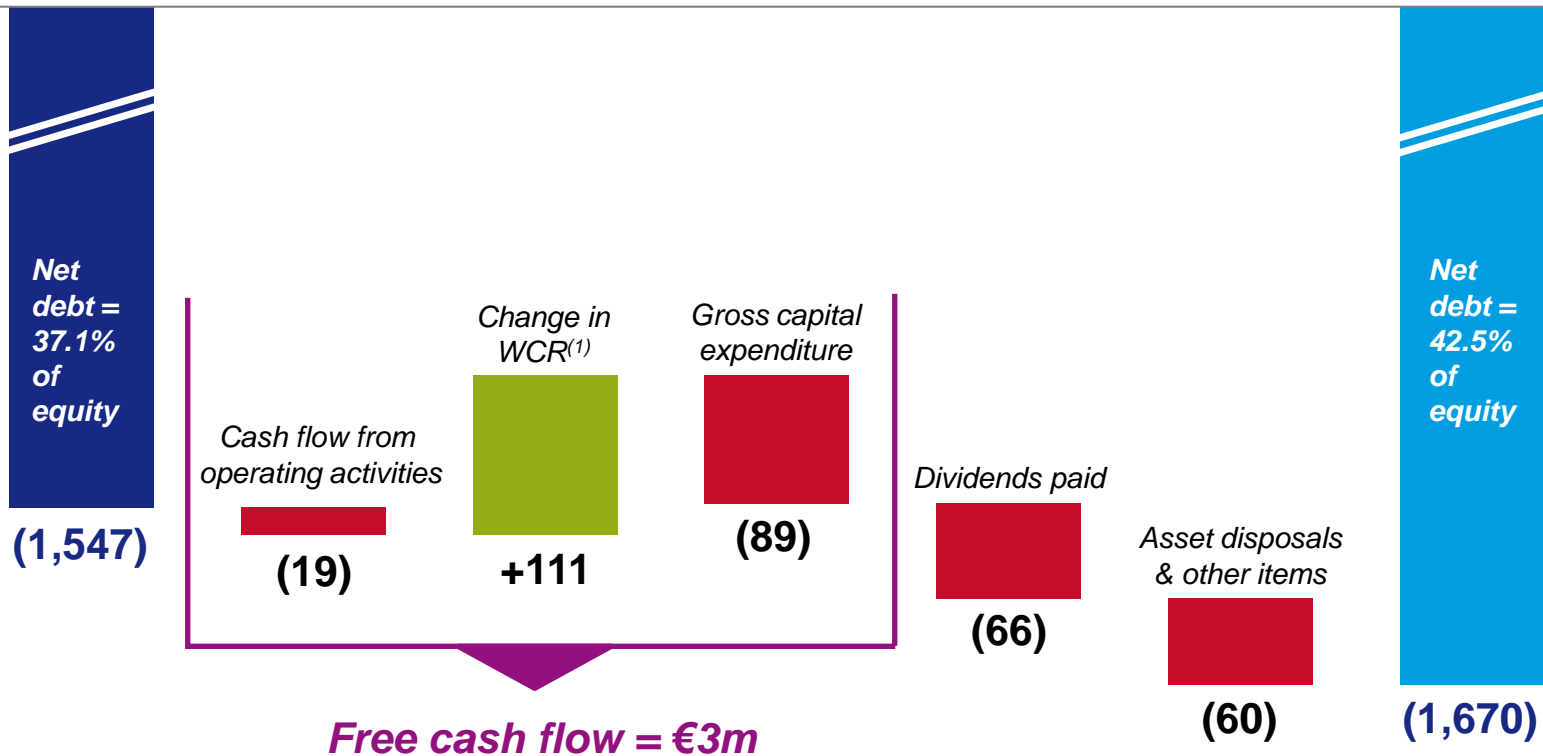
- Other charges of €145m mainly composed by restructuring charges and impairment related to the implementation of Valens (€111m)
- Stable depreciation of industrial assets
- Income tax charge down
- Non-controlling interests: decline in US operations results

Free cash flow & net debt

In millions of €

Net Debt as at
31 Dec. 2014

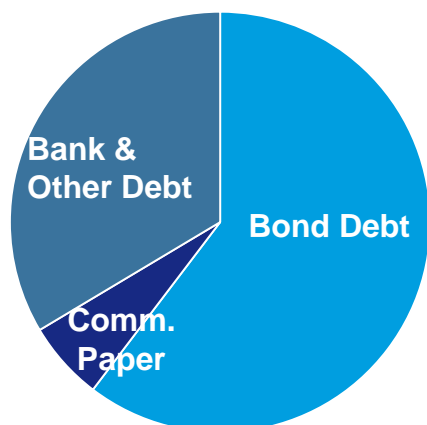
Net Debt as at
30 June 2015



Financial resources as at 30 June 2015

Strong and diversified financial structure

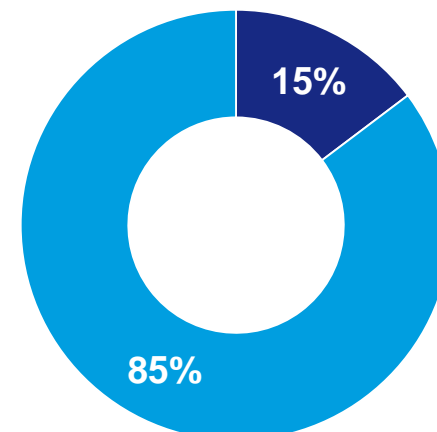
- Approx. 66% of gross debt raised on capital markets



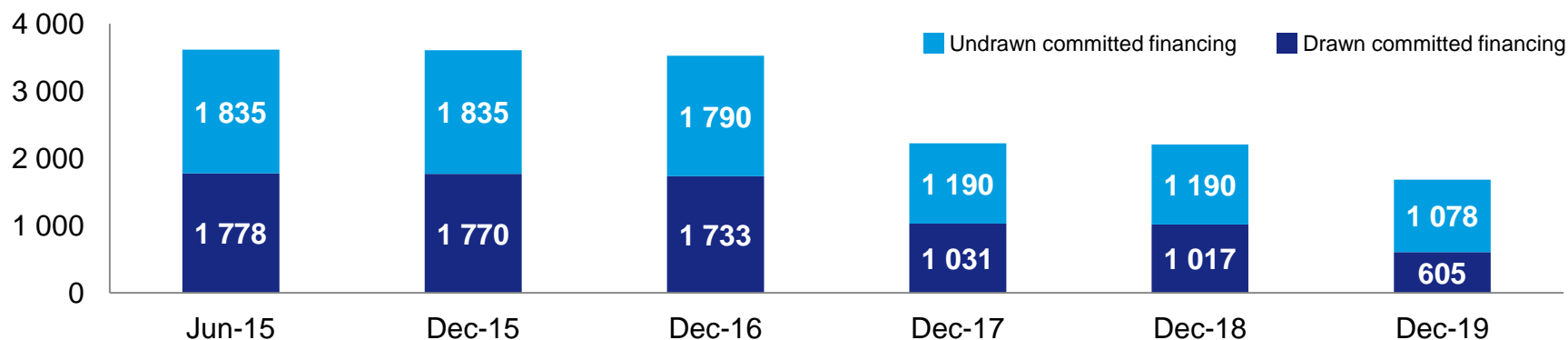
Optimized cost of financing

- 85% of gross debt is at fixed rate*

■ Variable rate ■ Fixed rate



Long-term committed financing profile





Outlook



2015 Outlook



- Q3 and Q4 2015 deliveries and margins expected to be significantly below the level achieved in Q2, which will likely result in a negative EBITDA for the full year
- **Based on current market conditions and currency trends, Vallourec continues to target a positive free cash flow generation in 2015 through:**
 - operating working capital strong reduction
 - capital expenditure revision to around €300m (vs. €350m initially planned)



Appendix



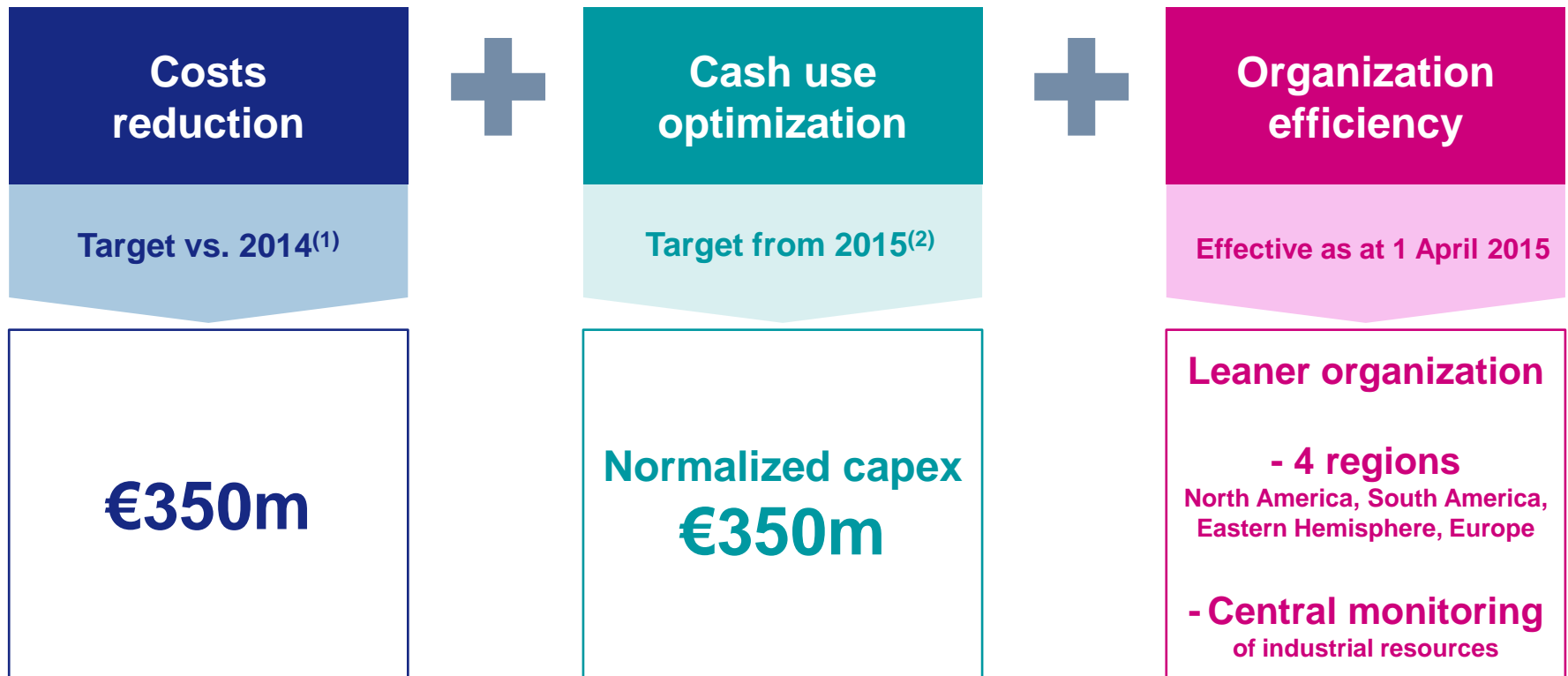


Strategic Update and 2-year competitiveness plan



Valens: a 2-year global plan to improve competitiveness and drive efficiency

Competitiveness plan Valens: 2015-2016 (full year effect in 2017)



Valens - Reduce added cost base

Targets 2015-2016 <i>Base 2014, excl. Raw material</i>	Costs reduction			
		Manufacturing & Direct costs on sales	SG&A	Total
	In %	10%	14%	10%
In €m base 2014	240m (60% variable costs)	80m	320m (50% variable costs)	

Before inflation, Including avoided costs

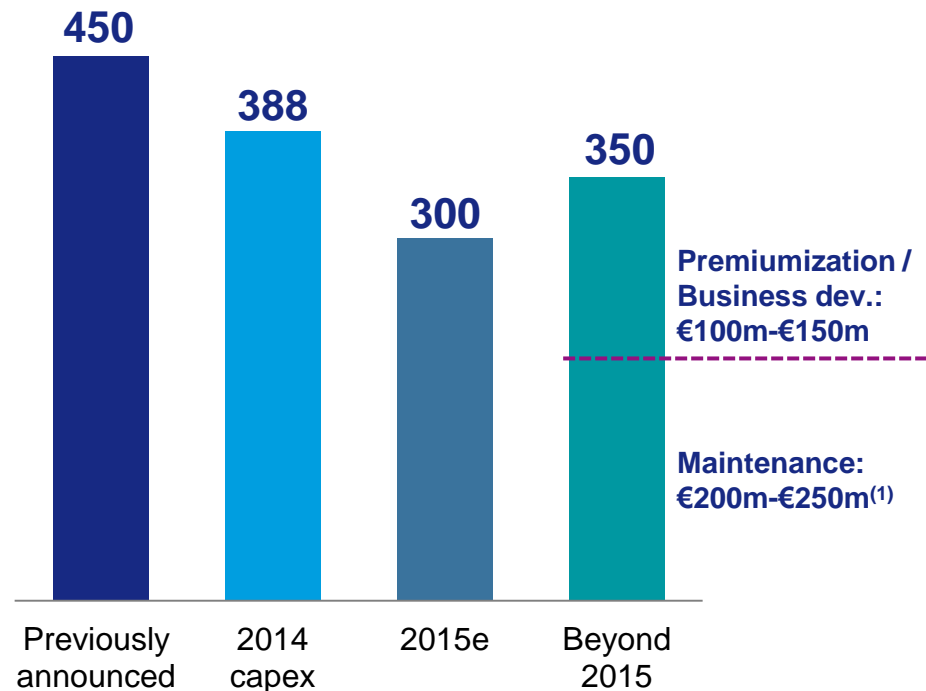
Full year effect in 2017, Assuming same volumes & cost base as in 2014

- **All types of costs addressed**
 - **>450 cost reduction initiatives** identified
 - **All divisions and regions covered**
- **Global project organization structure, dedicated resources** to support the implementation, and **specific tracking tool**
- Acceleration of the **Lean Management approach** a significant part of the costs reduction for Manufacturing

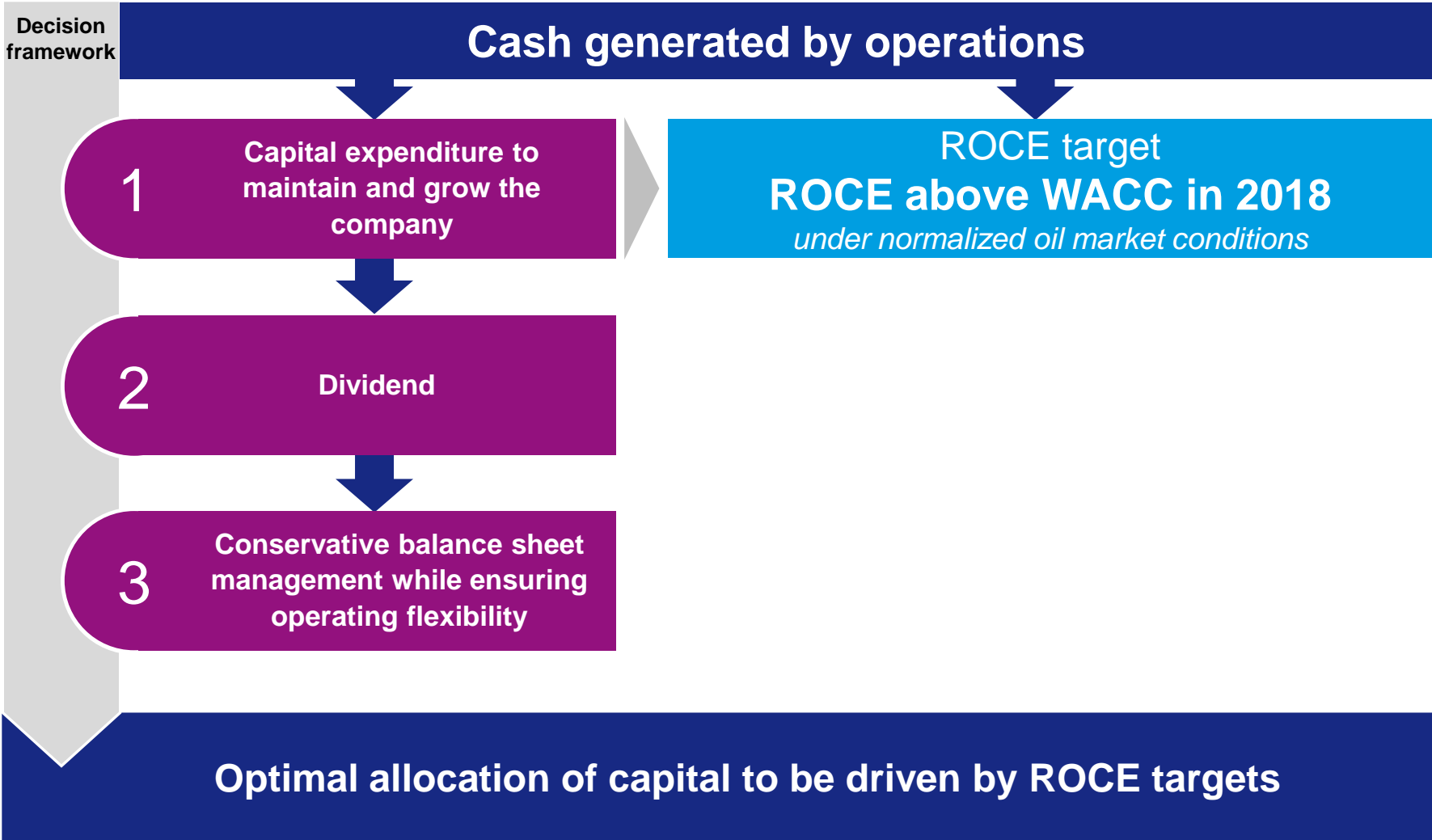
Valens - Enforce strict capex discipline

Target	Cash use optimization
	Normalized capex at €350m p.a. vs. €450m p.a. previously announced

- Capex envelope sized for business development, mix improvement, and maintenance
- Rigorous capex qualification and authorization process
- Capex execution supported by project management resources






Capital allocation framework in line with shareholders' interests



Optimization of the industrial set-up



	2011 tube production capacity	2014 tube production capacity	2017 targeted tube production capacity
	400kt	750kt	750kt
	500kt	800kt	800kt
	1,500kt	1,350kt	900kt
Total	2,400kt	≈2,900kt	≈2,450kt

ROCE definition

- $ROCE = \text{Net Operating Profit Less Adjusted Tax (NOPLAT)} / \text{Capital Employed}$
- “Capital Employed” as shown in the denominator is defined as the sum of Net Fixed Asset and Operating Working Capital, minus Goodwill
- “NOPAT” as shown in the numerator is calculated as EBITDA minus Depreciation and other non-cash items post tax shield $(1 - t(1))$



H1 2015 financial data



Our markets in H1 2015

Oil & Gas

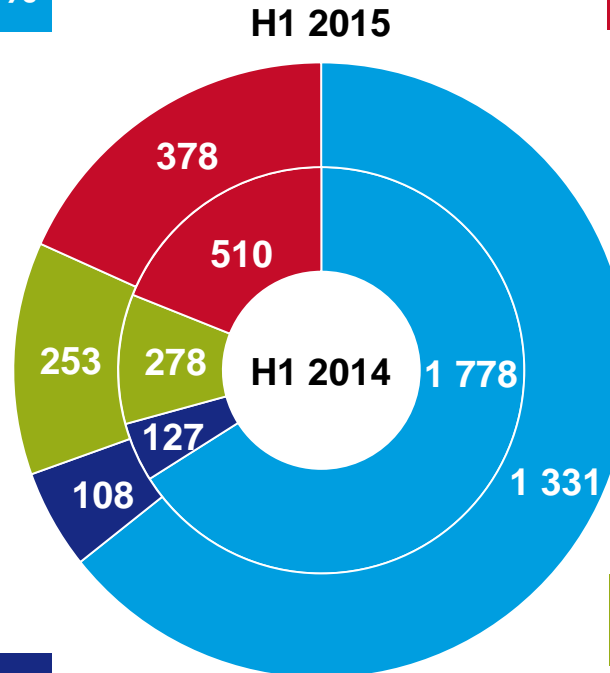
↘ -25.1%

- **EAMEA:** volumes and mix significantly down
- **USA:** volumes decline, destocking from distributors, prices decreased in Q2
- **Brazil:** revenues slightly down y-o-y due to lower drilling activity

Petrochemicals

↘ -15.0%

- Lower demand and intense competition



Industry & Other

↘ -25.9%

- **Europe:** very competitive environment
- **Brazil:**
 - worsening local macroeconomic environment
 - iron ore sales significantly down

Power Generation

↘ -9.0%

- **Conventional:** lower volumes along with pricing pressure
- **Nuclear:** favourable comparison base in 2014

Facing severe market conditions

Key market assumptions

USA

- Likely stabilization of the active rig count at a very low level
- Destocking from distributors expected to continue throughout 2015
- Price pressure started in H1 2015 intensifies
- ➔ **Q3 and Q4 2015 results expected to be significantly below Q2, with no volume recovery in H2 2015**

Brazil

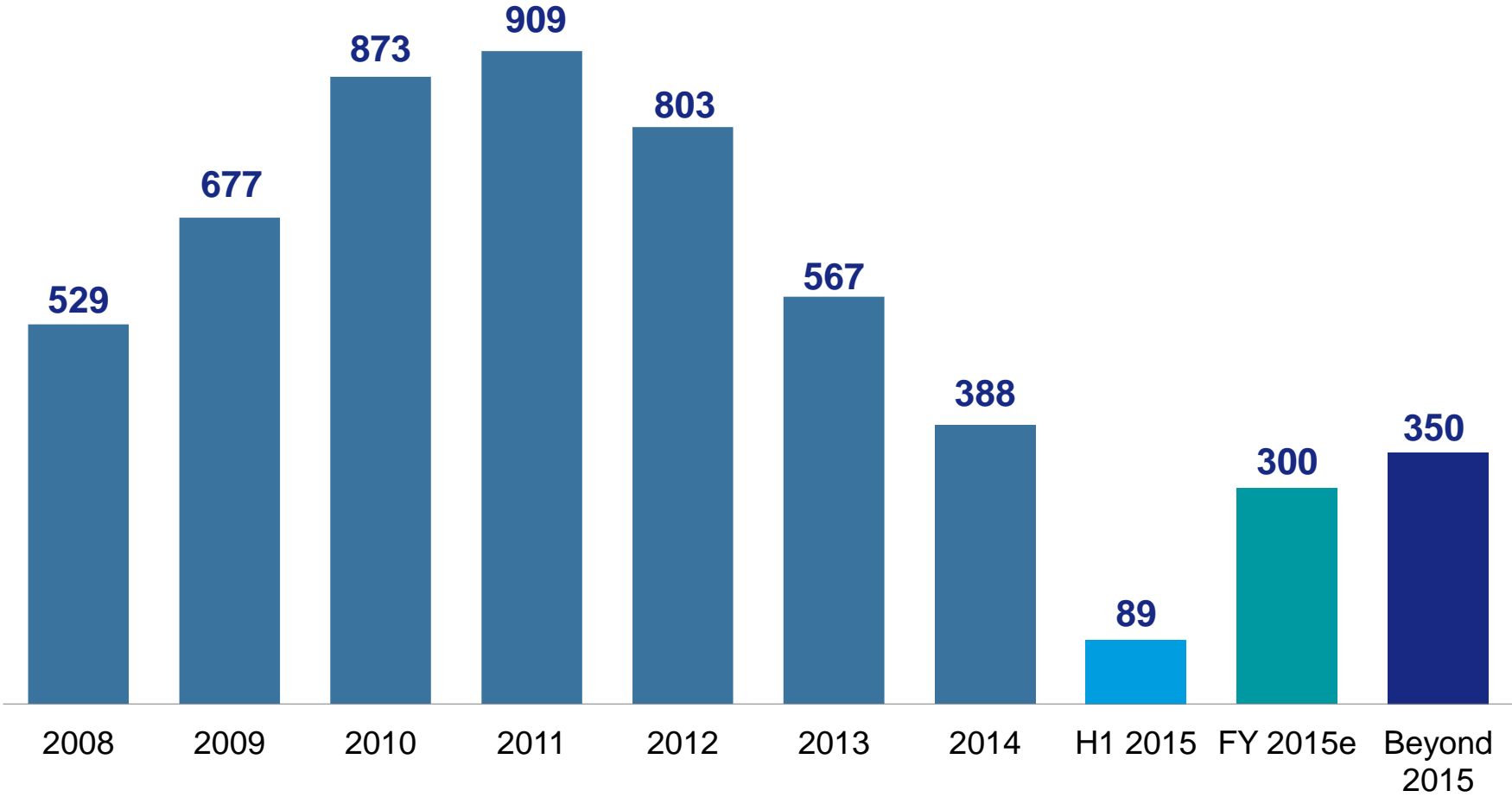
- +/- PBR's 5-year E&P capex plan reduced, focus on pre-salt maintained
- PBR's cash constraints
- Deteriorating local macroeconomic environment / Persisting oversupply in the iron ore market
- ➔ **O&G H2 2015 revenues expected to be down vs. H1 2015**
- ➔ **Industry & Other operations will continue to suffer in H2 2015**

EAMEA

- + Weakening of the Euro
- **Power Generation:** very competitive environment
- **Industry & Other:** very competitive environment
- **Oil & Gas:**
 - Very low level of order inflow
 - Ongoing destocking from some customers
 - Price pressure / unfavourable mix
- ➔ **H2 2015 performance expected to decline vs. H1, despite the favourable effect of a stronger US dollar**

Capital Expenditure

In millions of €



H1 2015 balance sheet

<i>In millions of €</i>	30 June 2015 ⁽¹⁾	31 Dec. 2014
Non current assets	4,882	5,077
Inventories and work-in-progress	1,443	1,490
Trade and other receivables	895	1,146
Financial instruments	26	28
Other current assets	325	343
Cash & cash equivalents	975	1,147
TOTAL ASSETS	8,546	9,231
Net Debt	1,670	1,547
Net Debt / Equity	42.5%	37.1%

<i>In millions of €</i>	30 June 2015 ⁽¹⁾	31 Dec. 2014
Equity, Group share	3,519	3,743
Non-controlling interests	406	426
Equity	3,925	4,169
Provisions and deferred tax	784	892
Bank debt	2,645	2,694
Financial instruments	206	173
Trade payables	555	807
Tax and other current liabilities	431	496
TOTAL EQUITY AND LIABILITIES	8,546	9,231

H1 2015 cash flow statement

<i>In millions of €</i>	H1 2015	H1 2014
Cash flow from operating activities (FFO)	(19)	+360
Change in operating WCR <i>+decrease, (increase)</i>	+111	(185)
Net cash flow from operating activities	+92	+175
Gross capital expenditure	(89)	(138)
Financial investments	-	-
Dividends paid	(66)	(136)
Asset disposals & other items	(60)	(9)
Change in net debt	(123)	(108)
Net debt (end of period)	1,670	1,739



Q2 2015 financial data



Q2 2015: from Revenues to EBITDA

<i>In millions of €</i>	Q2 2015	Q2 2014	Change YoY
Revenues	1,018	1,422	-28.4%
Industrial margin	142	403	-64.8%
<i>As % of revenues</i>	13.9%	28.3%	-14.4pt
SG&A⁽¹⁾	(127)	(143)	-11.2%
<i>As % of revenues</i>	12.5%	10.1%	+2.4pt
EBITDA	13	248	-94.8%
<i>As % of revenues</i>	1.3%	17.4%	-16.1pt

(1) Before depreciation and amortization

Q2 2015: from EBITDA to Net Income

<i>In millions of €</i>	Q2 2015	Q2 2014	Change YoY
EBITDA	13	248	-94.8%
Depreciation of industrial assets	(73)	(77)	-5.2%
Other	(133)	(15)	<i>na</i>
Operating income (loss)	(193)	156	<i>na</i>
Financial income (loss)	(16)	(11)	+45.5%
Income tax	2	(46)	-104.3%
Non-controlling interests	(9)	+11	<i>na</i>
Net income (loss), Group share	(199)	88	<i>na</i>

na: non applicable

Q2 2015 cash flow statement

In millions of €

	Q2 2015	Q2 2014	Q1 2015
Cash flow from operating activities (FFO)	(38)	+200	+19
Change in operating WCR <i>+decrease, (increase)</i>	+112	(128)	(1)
Net cash flow from operating activities	+74	+72	+18
Gross capital expenditure	(41)	(71)	(48)
Financial investments	-	-	-
Dividends paid	(66)	(113)	-
Asset disposals & other items	(34)	+1	(26)
Change in net debt	(67)	(111)	(56)
Net debt (end of period)	1,670	1,739	1,603



Leader in Premium Tubular Solutions

Euronext Paris: ISIN code: FR0000120354, Ticker: VK

USA: American Depositary Receipt (ADR) - ISIN code: US92023R2094, Ticker: VLOWY

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