



Q3 / 9M 2015 results

Investor Presentation

9 November 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).



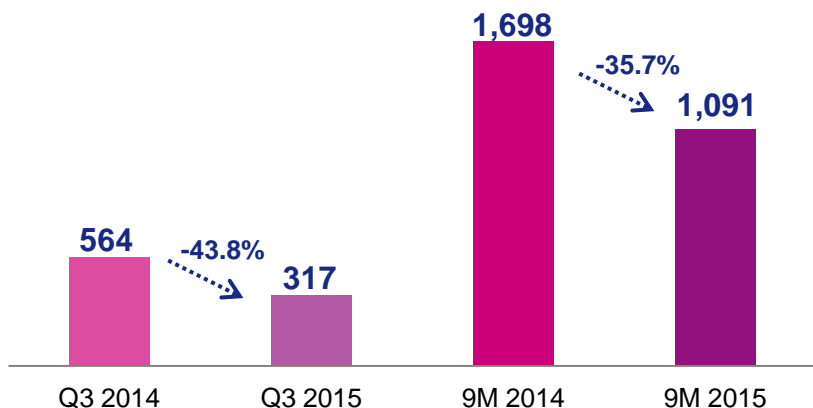
Q3 / 9M 2015 at a glance



9M 2015 financial results strongly impacted by adverse market conditions

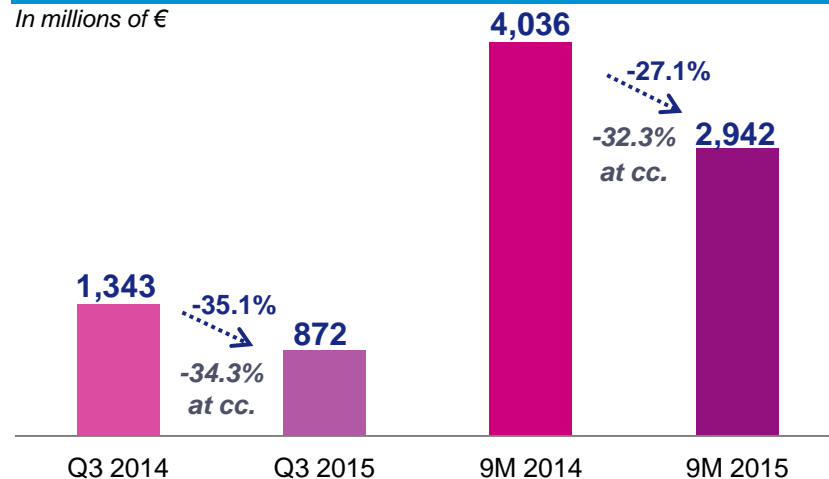
Volumes sold

In k tons



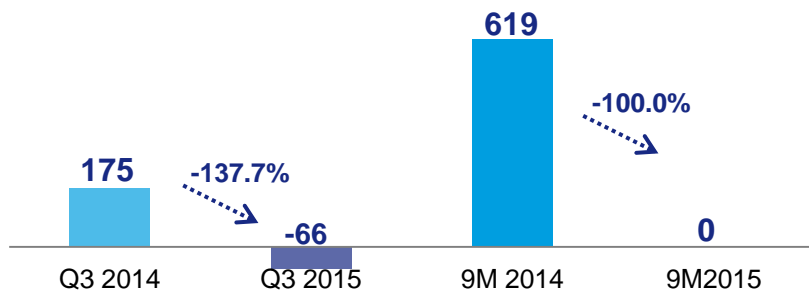
Revenues

In millions of €



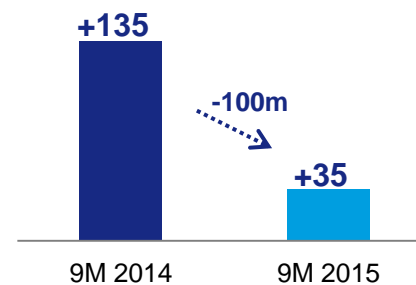
EBITDA (1)

In millions of €



Free Cash Flow(2)

In millions of €

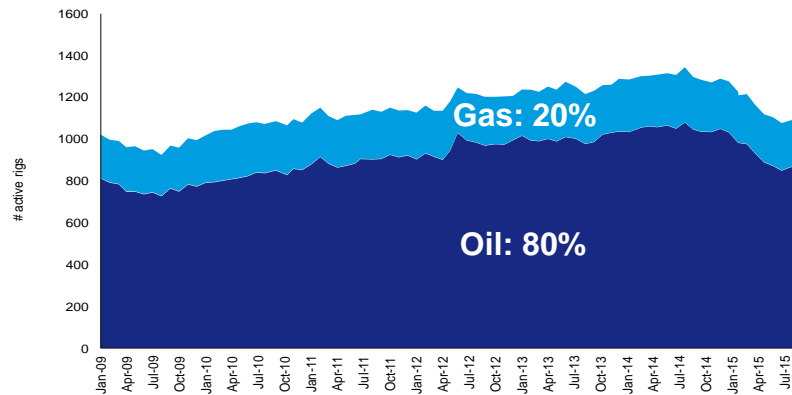


(1) Earnings Before Interest, Taxes, Depreciation and Amortization

(2) Non-GAAP measure defined as cash flow from operating activities minus capital expenditure and plus/minus change in operating working capital requirement

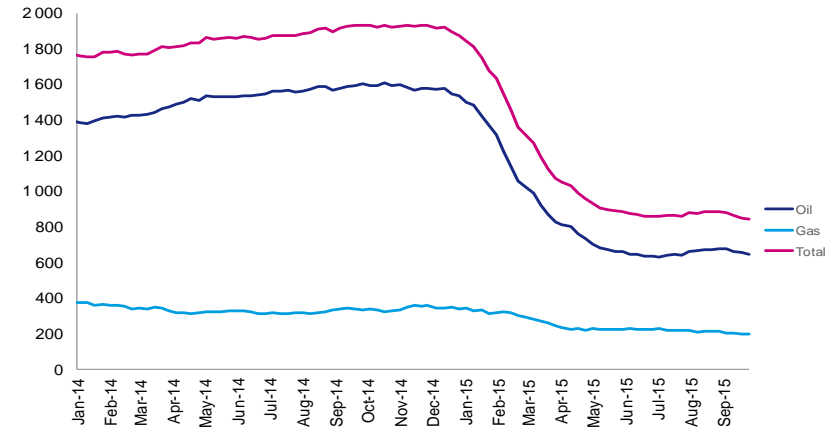
Adverse market conditions affecting Vallourec's Oil & Gas business

International Rig Count – Oil & Gas split



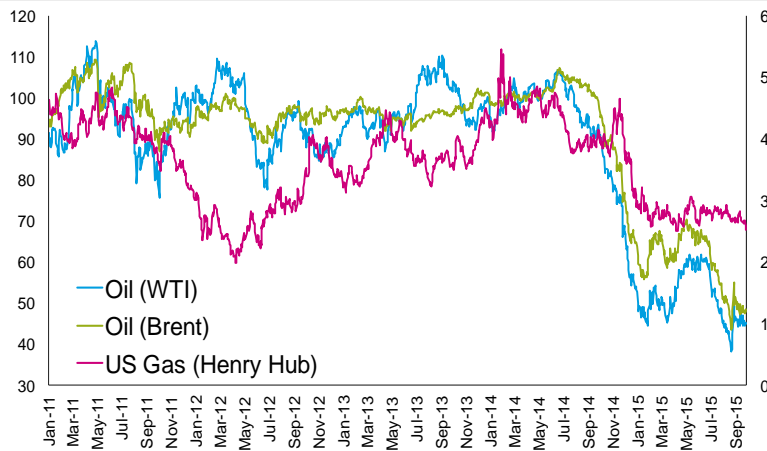
Source: Baker Hugues, "International Rotary Rig Count"

United States Rig Count – Oil & Gas split



Source: Baker Hugues, "North America Rotary Rig Count"

Oil & Gas prices evolution



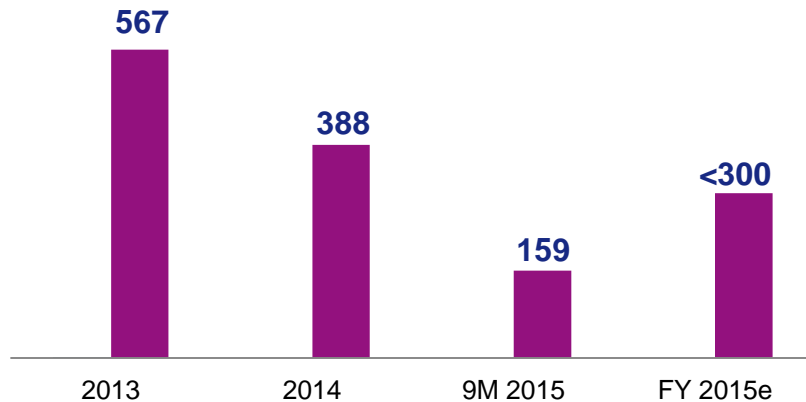
Source: Thomson Reuters

- **Collapse of the Brent and WTI:**
 - ✓ -50% between 30 Sept. 2014 and 30 Sept. 2015
- **US Rig Count:**
 - ✓ 838 units at 30 Sept. 2015 compared with 1,931 at 30 Sept. 2014 (-56.6%)
- **International Rig Count:**
 - ✓ At 30 Sept 2015: down 13.8% y-o-y

Delivering on ongoing measures to adapt to the downturn

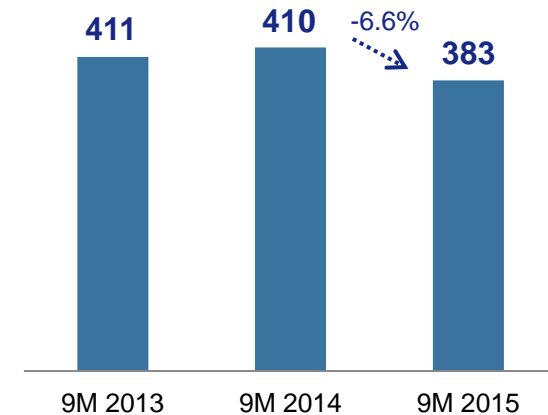
Further capex discipline

In millions of €



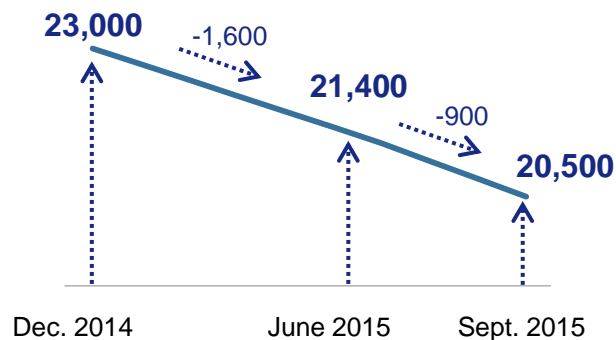
SG&A costs reduction

In millions of €



Global staff reduction

Global Headcount



- **Strict capex discipline:** Capex to stand below €300 million in 2015
- **SG&A costs reduction:** improvement of €27 million, or €35 million at constant exchange rate over 9M 2015
- **Global staff reduction:** approx. -11% since December 2014



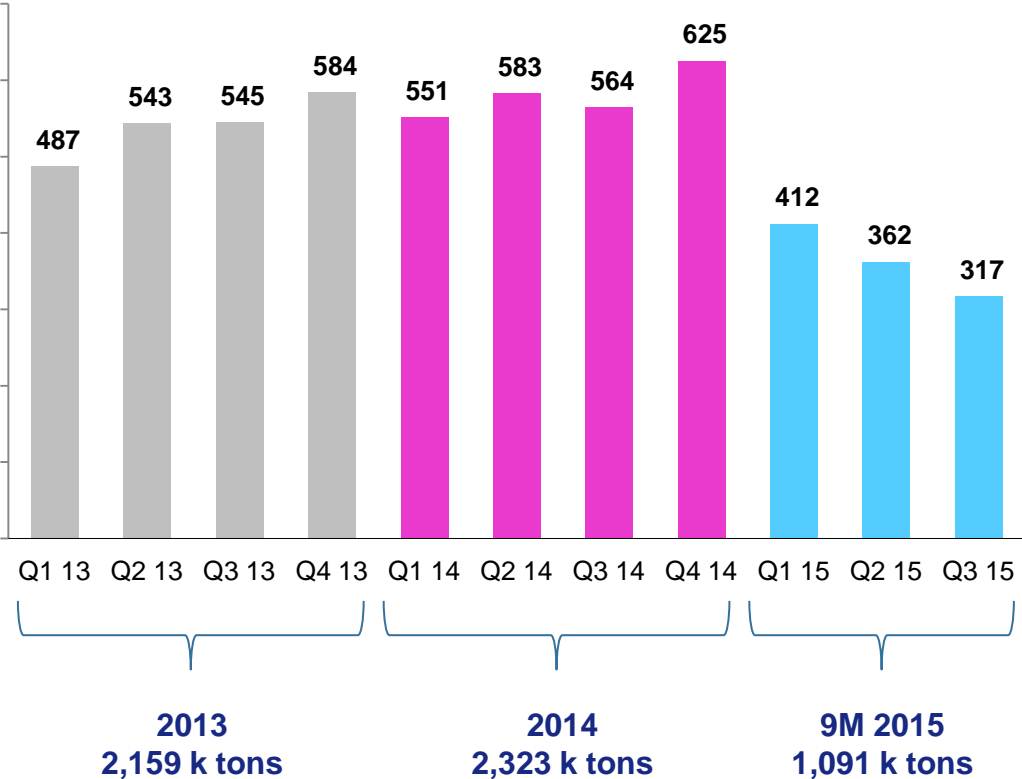
Q3 / 9M 2015 financial results



Sharp fall in volumes sold

Volumes sold 2013-2015

In k tons

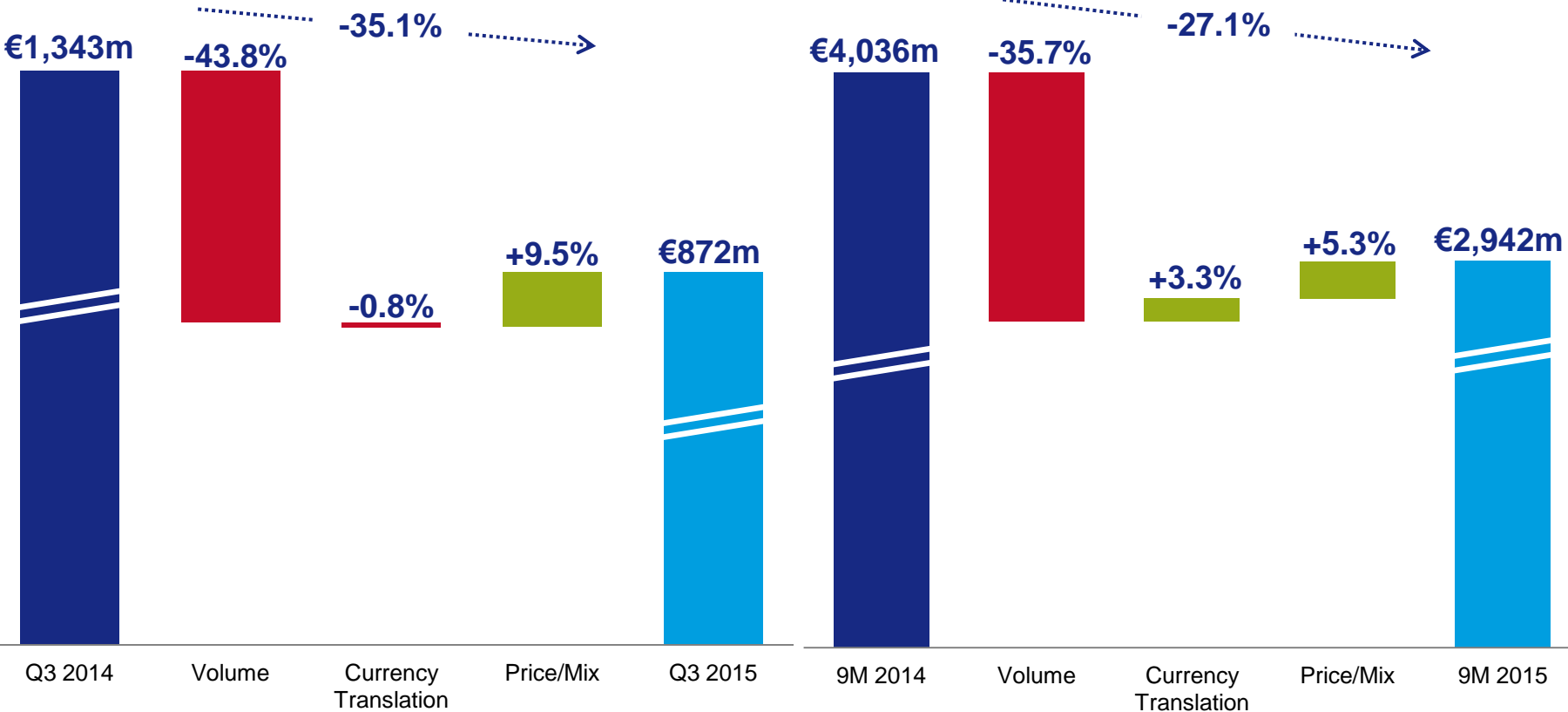


- **Approx. 35% drop in volumes compared to 2014**
 - ✓ In particular in the Oil & Gas market in NA and EAMEA

Revenues evolution severely affected by drop in volumes

Q3 2015 versus Q3 2014

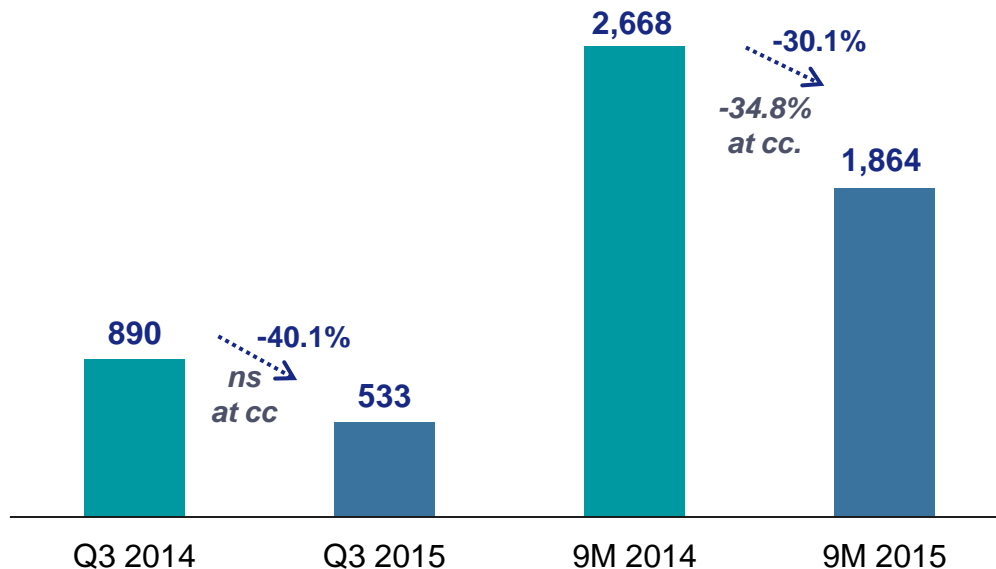
9M 2014 versus 9M 2015



Oil & Gas (63.4% of 9M 2015 Group's revenues)

Oil & Gas revenues

In millions of €



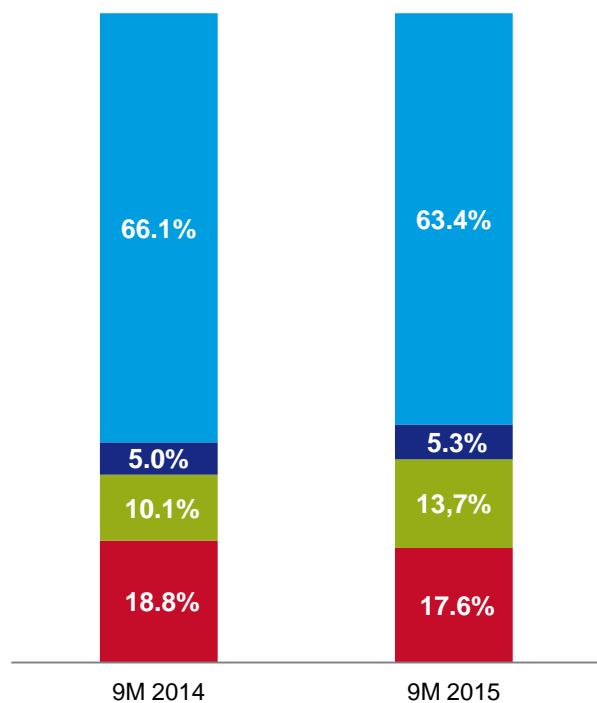
▪ O&G revenues:

- ✓ **EAMEA:** Volumes and mix significantly down in 9M 2015 compared with a strong 9M 2014
- ✓ **USA:** Volumes down reflecting the 54% fall in the active rig count and destocking from distributors associated with strong pressure on prices
- ✓ **Brazil:** Revenues down in 9M 2015 compared to 9M 2014

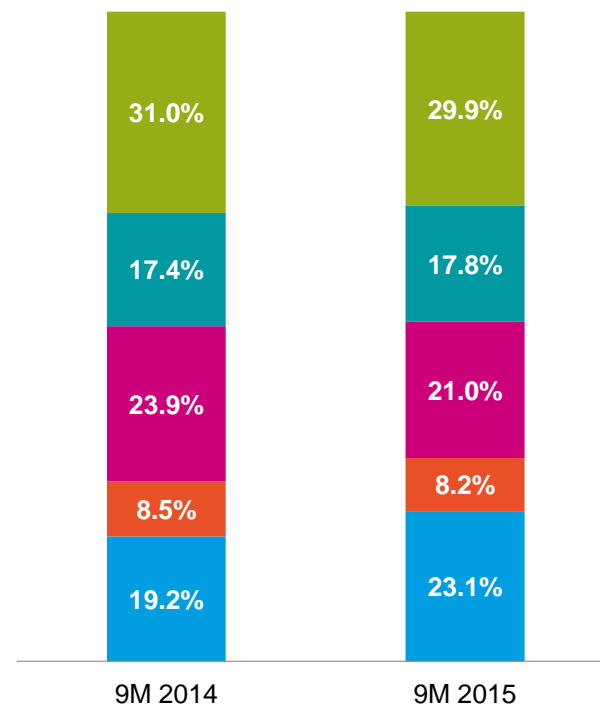
Revenues breakdown for 9M 2015

As % of total Group revenues

Revenues by market



Revenues by region



9M 2015: from Revenues to EBITDA

<i>In millions of €</i>	9M 2015 ⁽¹⁾	9M 2014	Change YoY
Revenues	2,942	4,036	-27.1%
Industrial margin	396	1,048	-62.2%
<i>As % of revenues</i>	13.5%	26.0%	-12.5pt
SG&A⁽²⁾	(383)	(410)	-6.6%
<i>As % of revenues</i>	13.0%	10.2%	+2.8pt
EBITDA	0	619	-100.0%
<i>As % of revenues</i>	0.0%	15.3%	-15.3pt

- **Revenues down 27%** mostly resulting from a negative volume effect, partly offset by a positive currency translation effect
- **Lower industrial margin** due to inefficiencies associated with mills load well below production capacity
- **Reduction of SG&A by €27 million, i.e. 6.6% or €35 million at constant change rate i.e. 8.5%**

9M 2015: from EBITDA to Net Income

<i>In millions of €</i>	9M 2015 ⁽¹⁾	9M 2014	Change YoY
EBITDA	0	619	-100.0%
Depreciation of industrial assets	(228)	(226)	+0.9%
Other (amortization, exceptional, restructuring, impairment...)	(165)	(48)	na
Operating income (loss)	(393)	345	-213.9%
Financial income (loss)	(52)	(41)	+26.8%
Income tax	(12)	(107)	-88.8%
Non-controlling interests	(19)	29	na
Net income (loss), Group share	(439)	169	-359.8%

- **Other charges** of €165 million mainly composed by restructuring charges and impairment related to Valens implementation
- **Financial income:** decrease of €11 million, mainly due to a lower positive forex income
- **Income tax charge down**
- **Net result:** loss of €439 million

Free Cash Flow

In millions of €

	Q3 2015	9M 2015	9M 2014	Change
Cash flow from operating activities (FFO) (A)	(66)	(85)	516	(601)
Change in WCR (B) + decrease, (increase)	168	279	(176)	455
Gross capital expenditure (C)	(70)	(159)	(205)	46
Free Cash Flow (A)+(B)+(C)	32	35	135	(100)

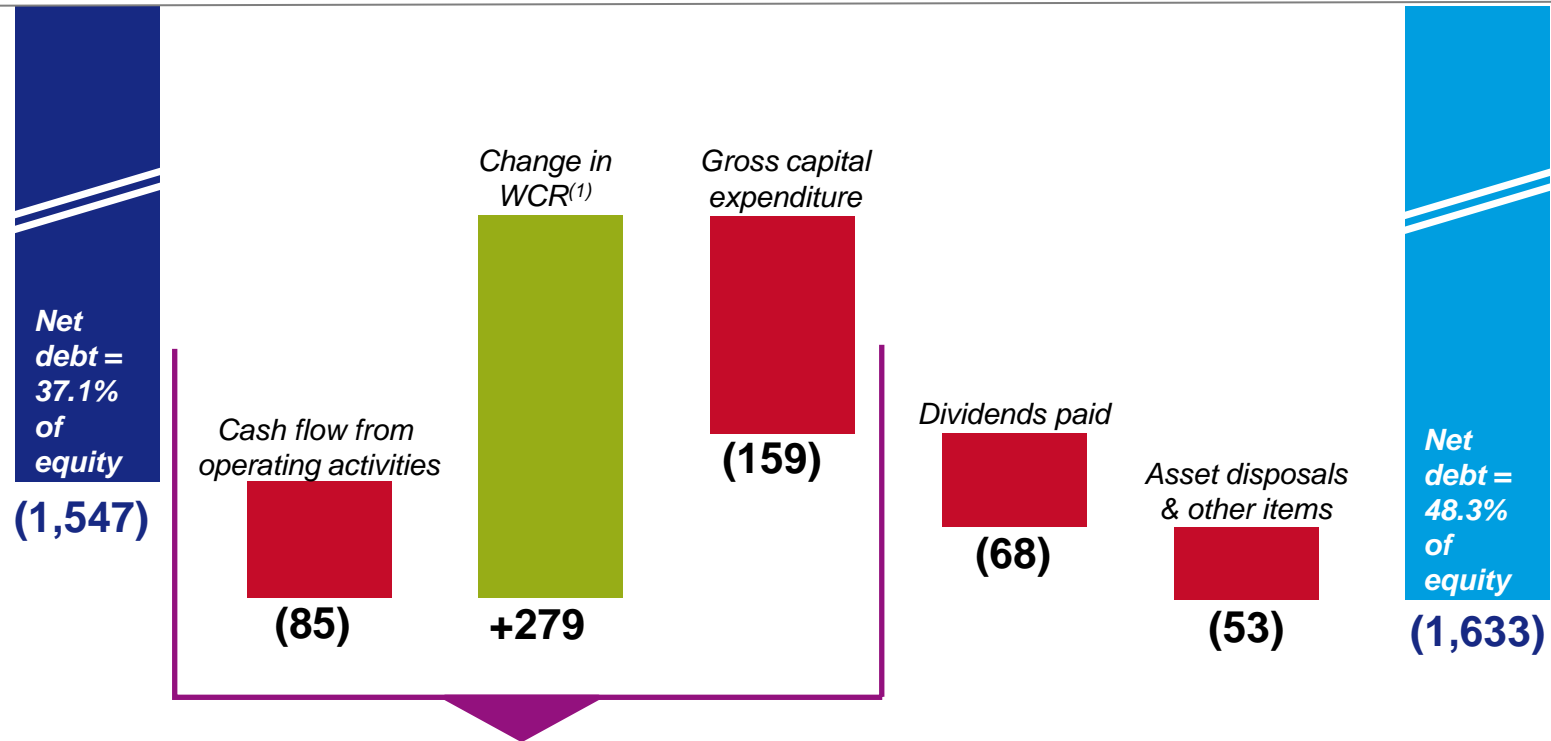
- ➔ **Positive FCF at €35m in 9M 2015 vs. €135m in 9M 2014**
- ➔ **Acceleration of WCR reduction**

9M Free cash flow & net debt

In millions of €

Net Debt as at
31 Dec. 2014

Net Debt as at
30 Sept. 2015



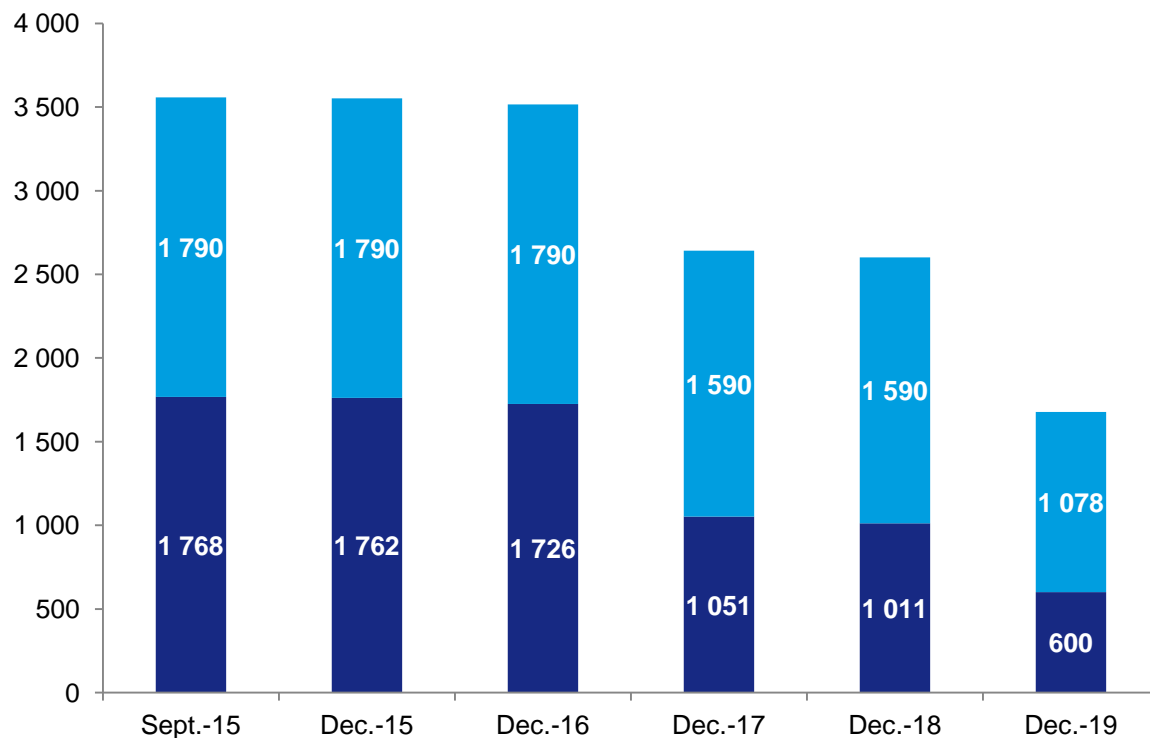
9M Free cash flow = €35m

Financial resources as at 30 September 2015

Long-term committed financing profile

In millions of €

■ Undrawn committed financing ■ Drawn committed financing



■ Strong liquidity position:

- ✓ €604 million of cash on balance sheet which covers more than 125% of the short term debt
- ✓ €1.790 billion of undrawn LT committed facilities

- **€400 million revolving credit facility maturing in 2019 signed in September 2015** (replacing four undrawn bilateral lines of €100 million each maturing in July 2017)



Outlook



Facing severe market conditions

Key market assumptions

USA

- Ongoing reduction in active rig count
- Further structural reductions in stock held by distributors
- ➔ **Q4 2015 performance should continue to be impacted by low demand and persistent pressure on prices**

Brazil

- Further reduction in PBR's 2016 E&P capex plan
- + Progressive increase of deliveries expected no earlier than 2017 to support development of pre-salt fields
- Deteriorating local macroeconomic environment / Persisting oversupply in the iron ore market
- ➔ **Q4 2015 revenues expected to be significantly down sequentially due to phasing of H2 deliveries concentrated in Q3 2015**
- ➔ **Industry & Other operations should continue to suffer in Q4 2015**

EAMEA

- + Favorable impact of stronger US dollar
- +/- **Power Generation:** activity should remain broadly stable in an increasingly competitive environment
- **Industry & Other:** very competitive environment
- **Oil & Gas:**
 - Very weak order inflow since the beginning of the year
 - Acute pressure on prices
- ➔ **Next quarters expected to be impacted by the low level of deliveries and pressure on prices**

Outlook 2015

- **Further deterioration in Q4 2015 resulting in negative EBITDA in 2015**
- **Positive free cash flow generation target maintained for 2015**
- **No improvement in market conditions in the short term**



Appendix



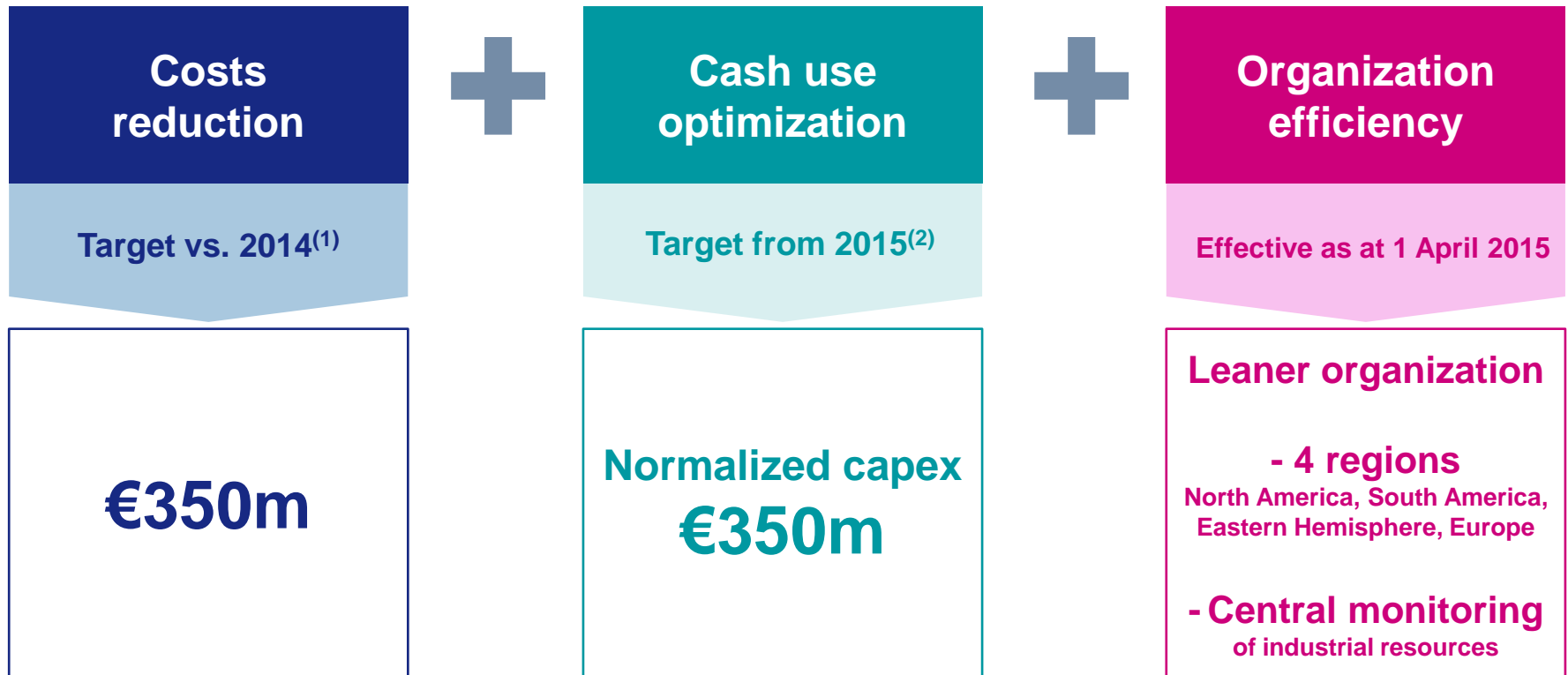


Valens, Vallourec's 2-year competitiveness plan



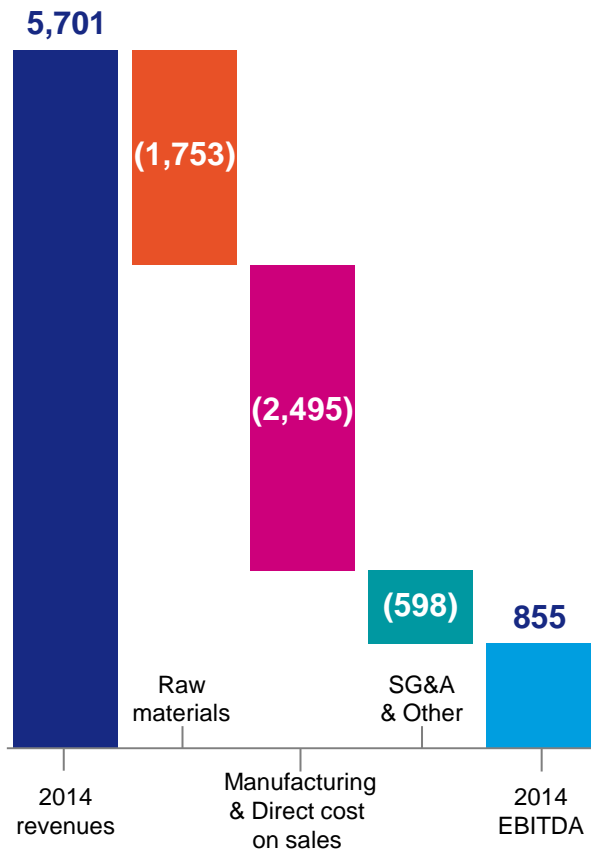
Valens: a 2-year global plan to improve competitiveness and drive efficiency

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



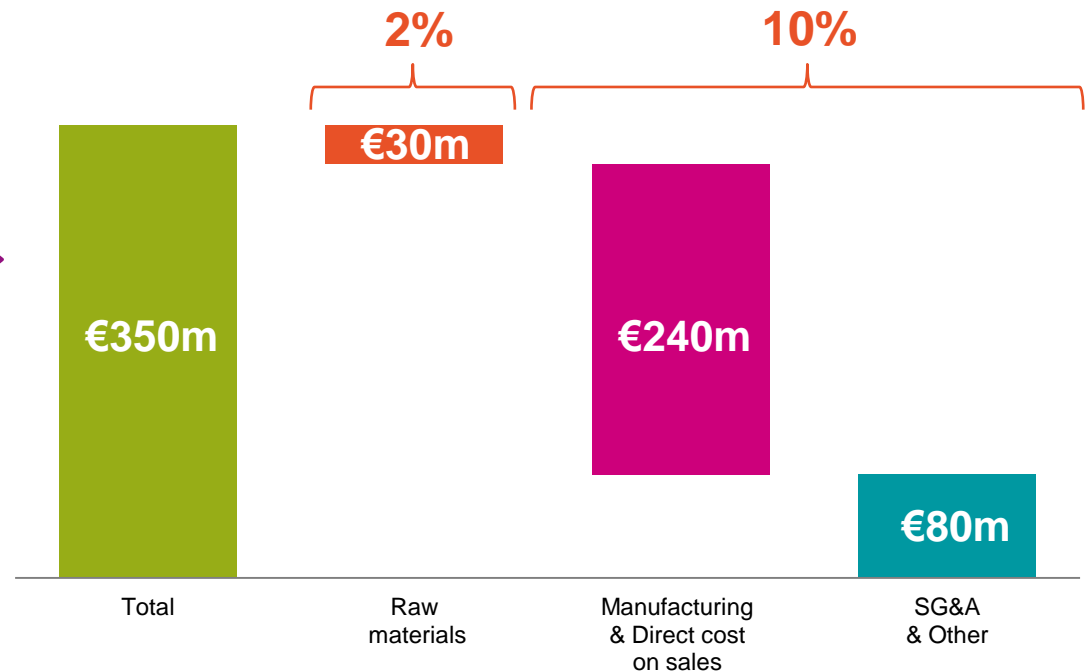
Valens - Structurally reduce cost base (1/2)

2014 cost base



2-year cost reduction targets⁽¹⁾

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



Valens - Reduce added cost base (2/2)

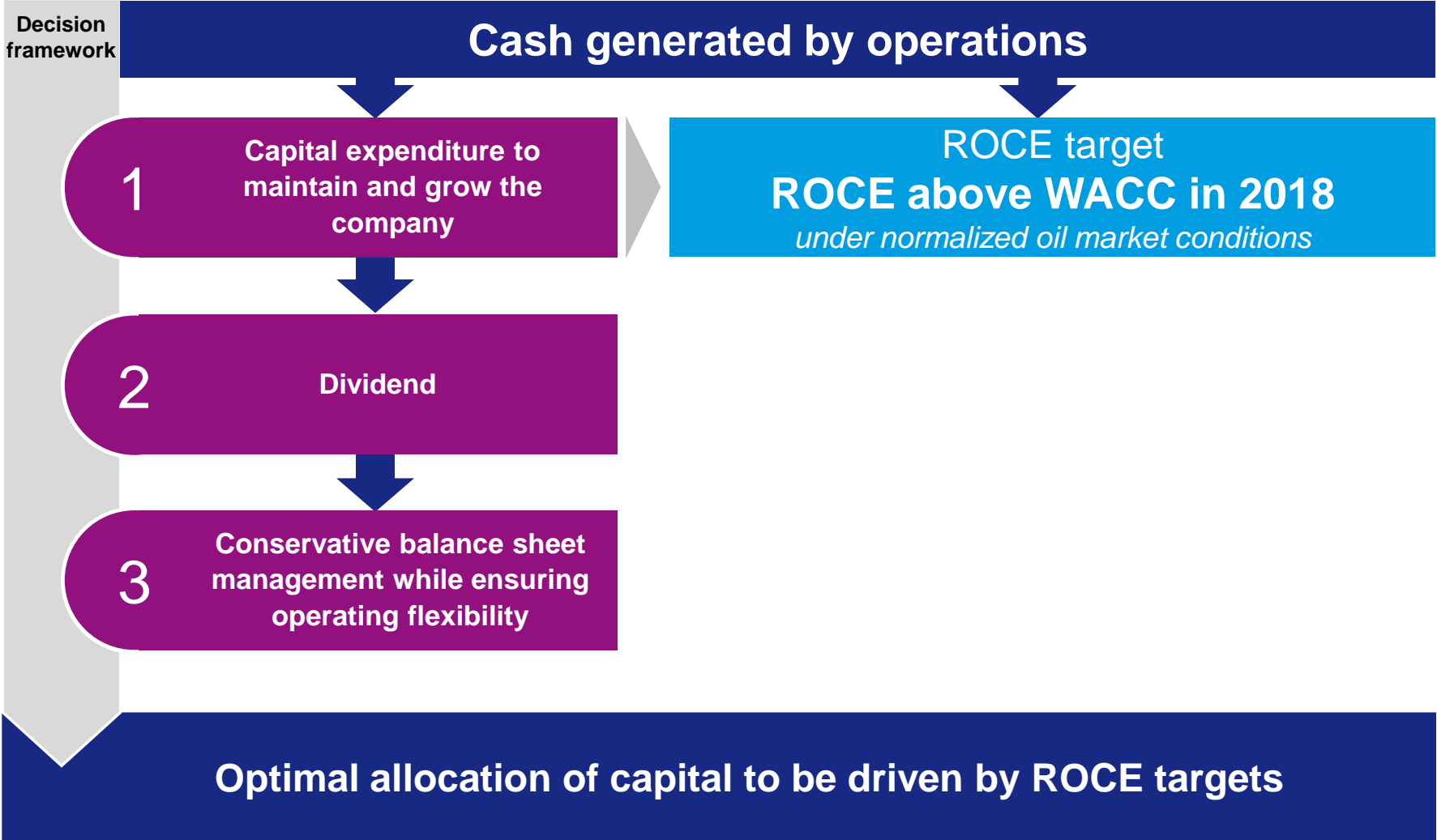
Targets 2015-2016 <i>Base 2014, excl. Raw material</i>	Costs reduction			
		Manufacturing & Direct costs on sales	SG&A	Total
	In %	10%	14%	10%
In €m base 2014	240m (60% variable costs)	80m	320m (50% variable costs)	

Before inflation, Including avoided costs

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




- **All types of costs addressed**
 - **700 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

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



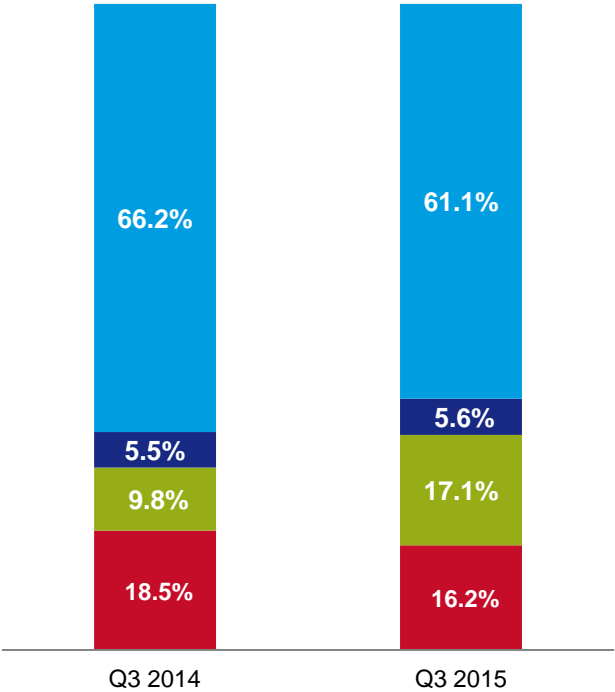
Q3 2015 financial data



Revenues breakdown for Q3 2015

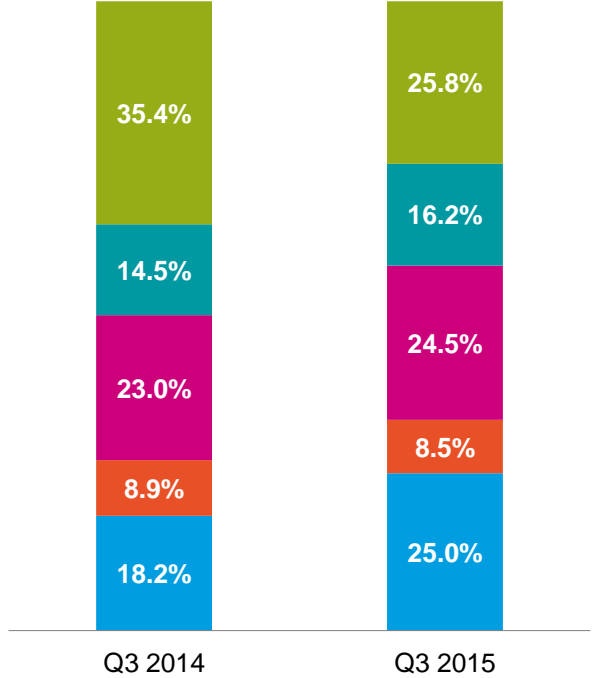
As % of total Group revenues

Revenues by market



- Oil & Gas
- Petrochemicals
- Power Generation
- Industry & Other

Revenues by region



- North America
- South America
- Rest of the world
- Europe
- Asia & Middle-East

Q3 2015: from Revenues to EBITDA

<i>In millions of €</i>	Q3 2015	Q3 2014	Change YoY
Revenues	872	1,343	-35.1%
Industrial margin	60	315	-81.0%
<i>As % of revenues</i>	6.9%	23.5%	-16.6pt
SG&A ⁽¹⁾	(119)	(137)	-13.1%
<i>As % of revenues</i>	13.6%	10.2%	+3.4pt
EBITDA	(66)	175	-137.7%
<i>As % of revenues</i>	-7.6%	13.0%	-20.6pt

- **Revenues down 35%** mostly as a result of the significant drop in volumes from Oil & Gas in NA and EAMEA
- **SG&A reduction of €18 million i.e. 13%** thanks to maintained focus on cost cuttings
- **EBITDA down €241million**

Q3 2015: from EBITDA to Net Income

<i>In millions of €</i>	Q3 2015	Q3 2014	Change YoY
EBITDA	(66)	175	-137.7%
Depreciation of industrial assets	(79)	(78)	+1.3%
Other	(20)	(17)	<i>na</i>
Operating income (loss)	(165)	80	-306.3%
Financial income (loss)	(15)	(10)	+50.0%
Income tax	3	(33)	-109.1%
Non-controlling interests	14	(13)	<i>na</i>
Net income (loss), Group share	(164)	25	-756.0%

na: non applicable

Q3 2015 cash flow statement

In millions of €

	Q3 2015	Q3 2014	Q2 2015
Cash flow from operating activities (FFO)	(66)	156	(38)
Change in WCR <i>+decrease, (increase)</i>	168	9	112
Net cash flow from operating activities	102	165	74
Gross capital expenditure	(70)	(67)	(41)
Financial investments	-	-	-
Dividends paid	(2)	(6)	(66)
Asset disposals & other items	7	(10)	(34)
Change in net debt	37	82	(67)
Net debt (end of period)	1,633	1,657	1,670

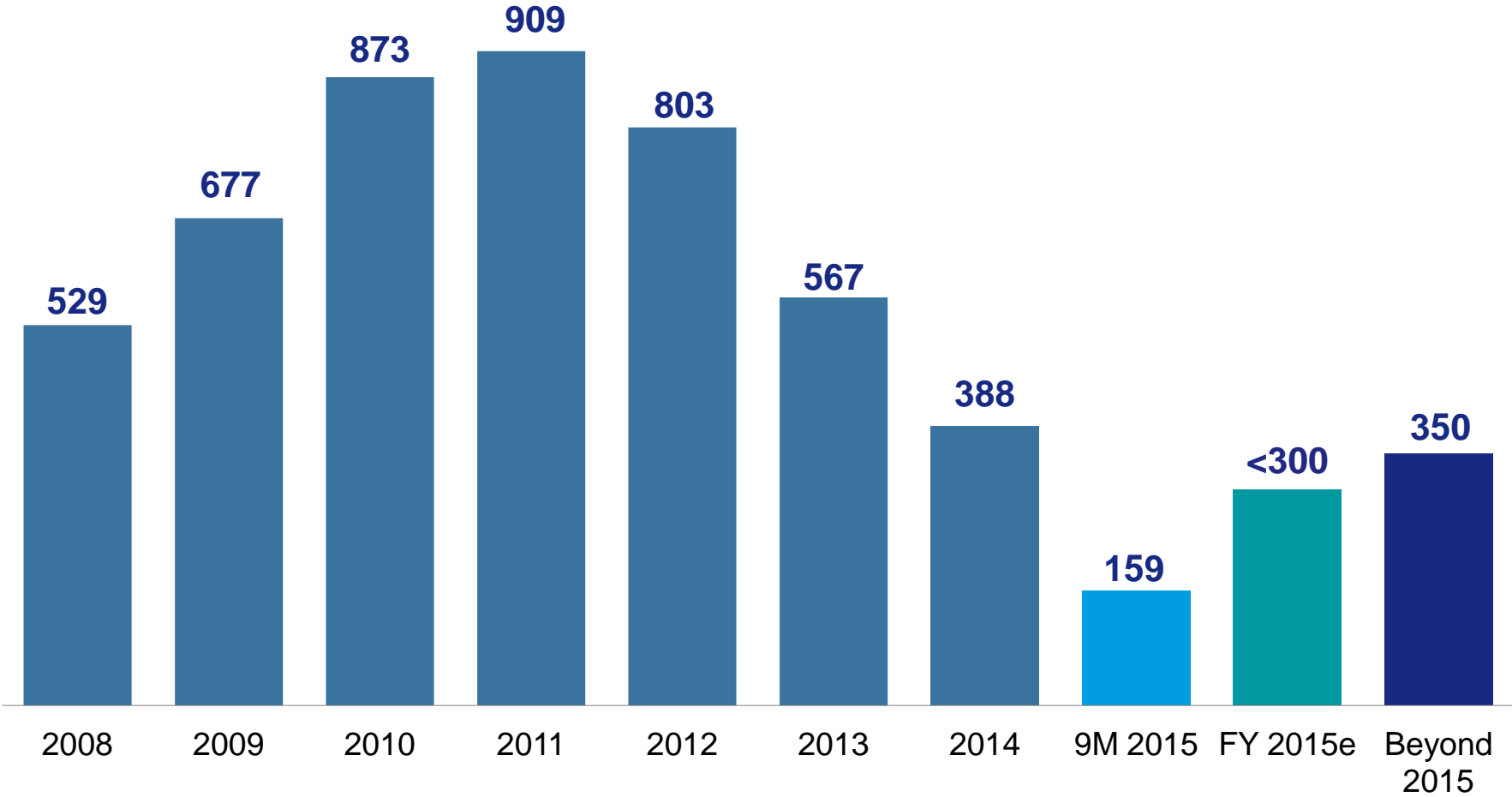


9M 2015 financial data



Capital Expenditure

In millions of €



Revenues by geographic region

In millions of €

	9M 2015	As % of revenues	9M 2014	As % of revenues	Change YoY
Europe	679	23.1%	775	19.2%	-12.4%
North America	881	29.9%	1,250	31.0%	-29.5%
South America	524	17.8%	701	17.4%	-25.2%
Asia & Middle East	618	21.0%	965	23.9%	-36.0%
Rest of World	240	8.2%	345	8.5%	-30.4%
Total	2,942	100.0%	4,036	100.0%	-27.1%

9M 2015 balance sheet

<i>In millions of €</i>	30 Sept. 2015 ⁽¹⁾	31 Dec. 2014
Non current assets	4,490	5,077
Inventories and work-in-progress	1,227	1,490
Trade and other receivables	734	1,146
Financial instruments	24	28
Other current assets	300	343
Cash & cash equivalents	604	1,147
TOTAL ASSETS	7,379	9,231

Net Debt	1,633	1,547
Net Debt / Equity	48.3%	37.1%

<i>In millions of €</i>	30 Sept. 2015 ⁽¹⁾	31 Dec. 2014
Equity, Group share	2,989	3,743
Non-controlling interests	391	426
Equity	3,380	4,169
Provisions and deferred tax	722	892
Bank debt	2,237	2,694
Financial instruments	163	173
Trade payables	488	807
Tax and other current liabilities	389	496
TOTAL EQUITY AND LIABILITIES	7,379	9,231

(1) As concerns the Amendment to IFRS 11, the impact of its application on the consolidated financial statements as at 30 September 2015 primarily translates to a €85 million drop in sales in consideration for purchases; a €165 million drop in non-current assets, in consideration for other provisions and long-term liabilities, and a drop in trade receivables of €33 million, in consideration for trade payables.

9M 2015 cash flow statement

<i>In millions of €</i>	9M 2015	9M 2014
Cash flow from operating activities (FFO)	(85)	516
Change in WCR <i>+decrease, (increase)</i>	279	(176)
Net cash flow from operating activities	194	340
Gross capital expenditure	(159)	(205)
Financial investments	-	-
Dividends paid	(68)	(142)
Asset disposals & other items	(53)	(19)
Change in net debt	(86)	(26)
Net debt (end of period)	1,633	1,657

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 $(1 - t(1))$



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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