vallourec

Press Release

July 2015
www.vallourec.com

Vallourec reports second quarter and first half 2015 results

- **H1 2015 financial results continue to be affected by reduced demand:**
  - Revenues at €2,070 million, down 23.1% year-on-year (down 28.7% at constant exchange rates)
  - EBITDA at €66 million, compared to €444 million in H1 2014
  - Positive free cash flow of €3 million in H1 2015 and €33 million in Q2 2015, better than anticipated
- **Valens and short-term measures on track:**
  - 2/3rd of the 450+ Valens initiatives started
  - Global staff reduction of 1,600 over the first half of 2015, including close to 1,000 permanent jobs
  - €112 million working capital reduction in Q2 2015
  - Capital expenditure revised down to around €300 million in 2015
- **Outlook:**
  - Further deterioration in H2 2015
  - Vallourec continues to target a positive free cash flow generation in 2015

Boulogne-Billancourt (France), 30 July 2015 – Vallourec, world leader in premium tubular solutions, today announces its results for the second quarter and first half of 2015. The consolidated financial statements were presented by Vallourec's Management Board to its Supervisory Board on 30 July 2015.

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

"The severe downturn in the Oil & Gas markets persists. The resulting decline in drilling activity since the beginning of the year, particularly in North America and the EAMEA region, led to a sharp fall in our sales and increased pressure on prices in the first semester. As a result, our mills have been operating well below capacity, leading to inefficiencies typically associated with low load.

Vallourec's management remain fully committed to confront this depressed environment, which will further affect the remainder of 2015.

We have implemented drastic flexibility measures to adapt our mills to the low load, and have removed approximately 80% of the variable costs associated with the lost volume.

In parallel, we are deploying Valens in strict accordance with the plan, and are on track to gradually deliver the targeted savings.

Finally, and more than ever under such circumstances, we maintain a strong focus on cash, through tight working capital management and strict discipline on capex: we therefore reiterate our positive free cash flow generation target for 2015.

I am convinced that the vigorous actions we have taken, combined with our unique technologies, talented people and key local positions, will enable us to respond to the challenging environment and keep meeting our customers' expectations."

Information

Half-year financial statements at 30 June 2014 and 30 June 2015 are subject to limited review by statutory auditors.
Quarterly financial statements are unaudited and not subject to any review.
Unless otherwise specified, indicated variations are expressed in comparison with the same period of the previous year.

Key figures

H1 2015	H1 2014	Change YoY	*In millions of euros*	Q2 2015	Q2 2014	Change YoY
774	1,134	*-31.7%*	**Sales Volume (k tonnes)**	**362**	583	*-37.9%*
2,070	2,693	*-23.1%*	**Revenues**	**1,018**	1,422	*-28.4%*
66	444	*-85.1%*	**EBITDA**	**13**	248	*-94.8%*
3.2%	*16.5%*	*-13.3pt*	*As % of revenues*	*1.3%*	*17.4%*	*-16.1pt*
(228)	265	*na*	**Operating income (loss)**(1)	**(193)**	156	*na*
(275)	144	*na*	**Net income (loss), Group share**	**(199)**	88	*na*
+3	+37	*-€34m*	**Free cash flow**(2)	**+33**	+1	*+€32m*

(1) *Comprises €145 million of other charges, including €111 million of restructuring charges and impairment related to the implementation of Valens*

(2) *Free cash flow (FCF) is a non-GAAP measure and is defined as cash flow from operating activities minus gross capital expenditure and plus/minus change in operating working capital requirement*

na: not applicable

I - CONSOLIDATED REVENUES BY MARKET

H1 2015	H1 2014	Change YoY	*In millions of euros*	Q2 2015	Q2 2014	Change YoY
1,439	1,905	*-24.5%*	Oil & Gas, Petrochemicals	720	1,017	*-29.2%*
253	278	*-9.0%*	Power Generation	110	143	*-23.1%*
378	510	*-25.9%*	Industry & Other	188	262	*-28.2%*
2,070	**2,693**	***-23.1%***	**Total**	**1,018**	**1,422**	***-28.4%***

Oil & Gas, Petrochemicals (69.5% of revenues)

Oil & Gas revenues reached €1,331 million in H1 2015, down 25.1% year-on-year (down 32.1% at constant exchange rates):

- In the **USA**, volumes sold were down, reflecting the fall in active rig count by 53% over the first semester along with destocking from distributors. Moreover, prices decreased in Q2.
- In the **EAMEA**[1] region, in a context of postponement of projects by IOCs and of ongoing destocking in Saudi Arabia, volumes and mix were significantly down in H1 2015 compared with a strong H1 2014.
- In **Brazil**, revenues were slightly down year-on-year in H1 2015 due to lower drilling activity.

Petrochemicals revenues were €108 million in H1 2015, down 15.0% year-on-year (down 21.3% at constant exchange rates) due to lower demand in a highly competitive environment.

Power Generation (12.2% of revenues)

Power Generation revenues amounted to €253 million in H1 2015, down 9.0% year-on-year (down 12.6% at constant exchange rates):

- **Conventional power generation** revenues were impacted by lower volumes along with pricing pressure.
- In **nuclear**, revenues were slightly up year-on-year, explained by a favourable comparable in 2014.

[1] EAMEA: Europe, Africa, Middle East, Asia

Industry & Other (18.3% of revenues)

Industry & Other revenues amounted to €378 million in H1 2015, down 25.9% year-on-year (down 26.7% at constant exchange rates):

- In **Europe**, revenues were down year-on-year in a very competitive environment.
- In **Brazil**, revenues were down year-on-year, strongly impacted by the continued deterioration of the macroeconomic environment in the region, notably by the severe downturn in the automotive industry. Indeed, according to ANFIR, the Brazilian Road Implements Association, sales for the domestic heavy vehicles market decreased by approximately 50% in H1 2015 compared with previous year.
  H1 2015 iron ore revenues were significantly down year-on-year, due to the 46% drop in iron ore spot prices compared with H1 2014.

II - H1 2015 CONSOLIDATED RESULTS ANALYSIS

EBITDA stood at €66 million in H1 2015, down 85.1% year-on-year. EBITDA margin was 3.2% of revenues in H1 2015 compared with 16.5% in H1 2014. This was due to:

- Lower consolidated revenues at €2,070 million, down 23.1% (down 28.7% at constant exchange rates), mainly resulting from a negative volume effect (-31.7%), notably for Oil & Gas in EAMEA and in the USA, and despite positive translation (+5.6%) and price/mix (+3.0%) effects.
- Lower industrial margin at €336 million, down 54.2%. Despite a significant reduction in variable costs, and lower industrial fixed costs, industrial margin was impacted by the fall in sales, and by inefficiencies associated with mills load well below production capacity.
- Sales, general and administrative costs (SG&A) declined by 3.3% to €264 million, with an 11.2% year-on-year decrease in Q2 2015. This improvement results from an overall focus on cost reduction, first results of Valens G&A actions, and was achieved despite unfavourable exchange rates and inflation. R&D efforts were kept stable.

Operating loss was €228 million in H1 2015, compared with a profit of €265 million in H1 2014. This deterioration results from lower EBITDA, and from €145 million of other charges, including €111 million of restructuring charges and impairment related to the implementation of Valens. The depreciation of industrial assets remained broadly stable at €149 million.

For the first half of 2015, financial result was negative at -€37 million versus -€31 million in H1 2014.

The **income tax charge** amounted to €15 million in H1 2015 compared with €74 million in H1 2014.

Non-controlling interests were a charge of -€5 million in H1 2015, compared with a product of €16 million in H1 2014, explained by the decline in US operations results.

Net loss, Group share was €275 million in H1 2015, compared with a profit of €144 million in H1 2014.

III - CASH FLOW & FINANCIAL POSITION

Vallourec generated a slightly better than anticipated free cash flow at €3 million in H1 2015, compared with a positive free cash flow of €37 million in H1 2014. This was primarily explained by:

- Negative **cash flow from operating activities** resulting from the drop in EBITDA;
- Lower **capital expenditure** at €89 million, representing a decrease of 35.5% compared with H1 2014;
- A reduction in **operating working capital requirement** (+€111 million), compared with an increase of €185 million in H1 2014, notably due to inventories.

In June 2015, the Holding company paid €41.9 million in dividend to its shareholders in cash. The payment of the dividend in shares resulted in the creation of 3,090,460 new shares (i.e. 2.37% of the share capital).

As at 30 June 2015, Group net debt increased by €123 million to €1,670 million compared with the end of 2014. The gearing ratio was 42.5% compared with 37.1% at the end of 2014.

Vallourec's liquidity position is strong. The Group increased its committed financings to approximately €3.6 billion, including €1.8 billion undrawn confirmed credit lines, and no significant repayment until 2017. In June 2015, the Group signed an additional multi-currency revolving credit facility for €90 million, maturing in February 2019, plus two one-year extension options.

IV - SHORT-TERM ADAPTATION AND VALENS PLAN

The Group is adapting to the low load of the mills. Global staff reduction was 1,600 over the first half of 2015 (close to 7% of total headcount), including close to 1,000 permanent jobs.

Action plans have been implemented to adapt the mills' to the reduced activity, and allowed to remove approximately 80% of the variable costs (excluding raw materials) associated with the lost volume.

The Valens plan is well on track with approximately 2/3rd of the 450+ initiatives already started notably on manufacturing costs and SG&A. These initiatives, along with an overall focus on cost reduction, contributed to the reduction of industrial fixed costs and to the improvement of S&GA in H1 2015. The targeted savings of 10% of added costs, with a full year effect in 2017, is confirmed.

The process to structurally reduce our European steel and tube capacity, and our worldwide overhead costs is being deployed according to plan.

V - MARKET TRENDS & OUTLOOK

Vallourec expects its Oil & Gas deliveries and results to be further impacted in H2 2015 by the challenging market trends:

- In the **EAMEA** region, the order inflow is staying at a very low level and destocking in Saudi Arabia is continuing. Therefore, low deliveries and unfavourable mix, associated with price pressure, will continue to significantly weigh on H2 2015 performance, which is expected to decline compared to H1, despite the favourable effect of a stronger US dollar.
- In the **USA**, the results in each of the two coming quarters are expected to be significantly below Q2 2015. After the Q2 2015 sequential drop in volumes sold, the likely stabilization of the active rig count at a very low level, and the continuation of the destocking from distributors throughout the year, should not allow any volume recovery in H2 2015, while price pressure that started in H1 intensifies.
- In **Brazil**, due to the current cash constraints of Petrobras, Vallourec expects its Oil & Gas H2 2015 revenues to be down compared with H1 2015. On 29 June 2015, Petrobras released its E&P 2015-2019 capex plan which was revised downwards compared to the 2014-2018 plan. Thanks to a focus maintained on development in pre-salt basins, Vallourec expects an increase in deliveries, starting in 2017.

Industry & Other operations in Brazil will continue to suffer in H2 2015 from the deteriorating local macroeconomic environment, while persisting oversupply in the iron ore market will result in significantly lower prices than in 2014.
In Europe, the environment for Power Generation and Industry & Other operations remains very competitive.

Overall, despite the ongoing cost reduction measures, this very challenging environment, notably in the Oil & Gas markets, is expected to lead to Q3 and Q4 2015 deliveries and margins being significantly below the level achieved in Q2, which will likely result in a negative EBITDA for the full year.

The Group maintains a strong focus on cash: the operating working capital requirement will continue to be strongly reduced in H2 2015, and the capital expenditure revised down to around €300 million from €350 million initially planned.
Based on current market conditions and currency trends, Vallourec continues to target a positive free cash flow generation in 2015.

About Vallourec

Vallourec is a world leader in premium tubular solutions primarily serving the energy markets, as well as other industrial applications.

With over 23,000 employees in 2014, integrated manufacturing facilities, advanced R&D and a presence in more than 20 countries, Vallourec offers its customers innovative global solutions to meet the energy challenges of the 21st century.

Listed on Euronext in Paris (ISIN code: FR0000120354, Ticker VK) and eligible for the Deferred Settlement System (SRD), Vallourec is included in the following indices: MSCI World Index, Euronext 100 and SBF 120.

In the United States, Vallourec has established a sponsored Level 1 American Depositary Receipt (ADR) program (ISIN code: US92023R2094, Ticker: VLOWY). Parity between ADR and a Vallourec ordinary share has been set at 5:1.

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Presentation of Q2 / H1 2015 results

Thursday 30 July 2015

- Analyst conference call / audio webcast at 6:30 pm (Paris time) to be held in English.
  To participate in the call, please dial:
  0800 279 5736 (UK), 0805 631 580 (France),
  1877 280 1254 (USA), +44(0)20 3427 1916 (Other countries)
  Conference code: 3861281
- Audio webcast and slides will be available on the website at:
  http://www.vallourec.com/EN/GROUP/FINANCE
- A replay of the conference call will be available until 6 August 2015.
  To listen to the replay, please dial:
  0800 358 7735 (UK), 0800 949 597 (France),
  1866 932 5017 (USA), +44(0)20 3427 0598 (Other countries)
  Access code: 3861281

Information
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Information and Forward-Looking Reflections

This press release 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).

Calendar

9 November 2015	Release of third quarter and first nine months 2015 results

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Appendices

Documents accompanying this release:

- Sales volume
- Forex
- Revenues by geographic region
- Revenues by market
- Cash flow statement
- Free cash flow
- Summary consolidated income statement
- Summary consolidated balance sheet
- Tube production capacity

Sales volume

In thousands of tonnes	2015	2014	Change YoY
Q1	412	551	*-25.2%*
Q2	362	583	*-37.9%*
Q3		*564*	
Q4		625	
Total	**774**	**2,323**	

Forex

Average exchange rate	H1 2015	H1 2014
EUR / USD	**1.12**	1.37
EUR / BRL	**3.31**	3.15
USD / BRL	**2.97**	2.30

Revenues by geographic region

In millions of euros	H1 2015	*As % of revenues*	H1 2014	*As % of revenues*	Change YoY
Europe	461	*22.3%*	530	*19.7%*	*-13.0%*
North America	656	*31.7%*	774	*28.7%*	*-15.2%*
South America	383	*18.5%*	507	*18.8%*	*-24.5%*
Asia & Middle East	404	*19.5%*	656	*24.4%*	*-38.4%*
Rest of World	166	*8.0%*	226	*8.4%*	*-26.5%*
Total	**2,070**	***100.0%***	**2,693**	***100.0%***	***-23.1%***

Revenues by market

In millions of euros	H1 2015	*As % of revenues*	H1 2014	*As % of revenues*	Change YoY	Q2 2015	Change YoY
Oil & Gas	1,331	*64.3%*	1,778	*66.0%*	*-25.1%*	678	*-29.1%*
Petrochemicals	108	*5.2%*	127	*4.7%*	*-15.0%*	42	*-31.1%*
Oil & Gas, Petrochemicals	**1,439**	***69.5%***	**1,905**	***70.7%***	***-24.5%***	**720**	*-29.2%*
Power Generation	**253**	***12.2%***	**278**	***10.3%***	***-9.0%***	**110**	***-23.1%***
Mechanicals	204	*9.9%*	211	*7.8%*	*-3.3%*	105	*-0.9%*
Automotive	65	*3.1%*	105	*3.9%*	*-38.1%*	30	*-42.3%*
Construction & Other	109	*5.3%*	194	*7.3%*	*-43.8%*	53	*-49.0%*
Industry & Other	**378**	***18.3%***	**510**	***19.0%***	***-25.9%***	**188**	***-28.2%***
Total	**2,070**	***100.0%***	**2,693**	***100.0%***	***-23.1%***	**1,018**	***-28.4%***

Cash flow statement

H1 2015	H1 2014	*In millions of euros*	Q2 2015	Q2 2014	Q1 2015
(19)	+360	Cash flow from operating activities	(38)	+200	+19
+111	(185)	Change in operating WCR *+ decrease, (increase)*	+112	(128)	(1)
+92	**+175**	**Net cash flow from operating activities**	**+74**	**+72**	**+18**
(89)	(138)	Gross capital expenditure	(41)	(71)	(48)
-	-	Financial investments	-	-	-
(66)	(136)	Dividends paid	(66)	(113)	-
(60)	(9)	Asset disposals & other items	(34)	+1	(26)
(123)	**(108)**	**Change in net debt *+ decrease, (increase)***	**(67)**	**(111)**	**(56)**
1,670	1,739	Net debt (end of period)	1,670	1,739	1,603

Free cash flow

H1 2015	H1 2014	Change	*In millions of euros*	Q2 2015	Q2 2014	Change
(19)	+360	-379	Cash flow from operating activities (FFO) **(A)**	(38)	+200	-238
+111	(185)	+296	Change in operating WCR **(B)** *[+ decrease, (increase)]*	+112	(128)	+240
(89)	(138)	+49	Gross capital expenditure **(C)**	(41)	(71)	+30
+3	**+37**	**-34**	**Free cash flow (A)+(B)+(C)**	**+33**	**+1**	**+32**

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Summary consolidated income statement

H1 2015[1]	H1 2014	Change YoY	*In millions of euros*	Q2 2015	Q2 2014	Change YoY
2,070	2,693	*-23.1%*	**REVENUES**	**1,018**	1,422	*-28.4%*
(1,734)	(1,960)	*-11.5%*	Cost of sales[2]	(876)	(1,019)	*-14.0%*
336	*733*	*-54.2%*	***Industrial margin***	**142**	*403*	*-64.8%*
16.2%	*27.2%*	*-11.0pt*	*(as % of revenues)*	*13.9%*	*28.3%*	*-14.4pt*
(264)	(273)	*-3.3%*	SG&A costs[2]	(127)	(143)	*-11.2%*
(6)	(16)	*na*	Other income (expense), net	(2)	(12)	*na*
66	444	*-85.1%*	**EBITDA**	**13**	248	*-94.8%*
3.2%	*16.5%*	*-13.3pt*	*EBITDA as % of revenues*	*1.3%*	*17.4%*	*-16.1pt*
(149)	(148)	*+0.7%*	Depreciation of industrial assets	(73)	(77)	*-5.2%*
(145)	(31)	*na*	Other (amortization, exceptional items, impairment & restructuring)	(133)	(15)	*na*
(228)	265	*na*	**OPERATING INCOME (LOSS)**	**(193)**	156	*na*
(37)	(31)	*+19.4%*	Financial income (loss)	(16)	(11)	*+45.5%*
(265)	234	*na*	**PRE-TAX INCOME (LOSS)**	**(209)**	145	*na*
(15)	(74)	*-79.7%*	Income tax	2	(46)	*-104.3%*
0	0	*na*	Share in net income (loss) of associates	(1)	0	*na*
(280)	160	*na*	**NET INCOME (LOSS) FOR THE CONSOLIDATED ENTITY**	**(208)**	99	*na*
(5)	16	*na*	Non-controlling interests	(9)	11	*na*
(275)	144	*na*	**NET INCOME (LOSS), GROUP SHARE**	**(199)**	88	*na*
(2.1)	1.1	*na*	**EARNINGS PER SHARE (in €)**	**(1.5)**	0.7	*na*

(1) *As concerns the Amendment to IFRS 11, the impact of its application on the consolidated financial statements as at 30 June 2015 primarily translates to a €60 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.*

(2) *Before depreciation and amortization*

na: not applicable

Summary consolidated balance sheet

In millions of euros

Assets	30-June 2015[(1)]	31-Dec 2014	Liabilities	30-June 2015[(1)]	31-Dec 2014
			Equity, Group share	3,519	3,743
Net intangible assets	165	166	Non-controlling interests	406	426
Goodwill	357	332	**Total equity**	**3,925**	**4,169**
Net property, plant and equipment	3,487	3,523			
Biological assets	190	214	Bank loans and other borrowings	1,778	1,782
Associates	194	184	Employee benefits	205	244
Other non-current assets	282	435	Deferred tax liabilities	254	256
Deferred tax assets	207	223	Provisions and other long-term liabilities	60	229
Total non-current assets	**4,882**	**5,077**	**Total non-current liabilities**	**2,297**	**2,511**
Inventories and work-in-progress	1,443	1,490	Provisions	265	163
Trade and other receivables	895	1,146	Overdrafts and other short-term borrowings	867	912
Derivatives - assets	26	28	Trade payables	555	807
Other current assets	325	343	Derivatives - liabilities	206	173
Cash and cash equivalents	975	1,147	Tax and other current liabilities	431	496
Total current assets	**3,664**	**4,154**	**Total current liabilities**	**2,324**	**2,551**
TOTAL ASSETS	**8,546**	**9,231**	**TOTAL EQUITY AND LIABILITIES**	**8,546**	**9,231**
Net debt	**1,670**	**1,547**	**Net income (loss), Group share**	**(275)**	**(924)**
Gearing ratio	**42.5%**	**37.1%**			

(1) *As concerns the Amendment to IFRS 11, the impact of its application on the consolidated financial statements as at 30 June 2015 primarily translates to a €60 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.*

Tube production capacity

In thousands of tonnes	2017 targeted tube production capacity	2014 tube production capacity	2011 tube production capacity
USA	750	750	400
Brazil	800	800	500
Europe	900	1,350	1,500
Total	**~2,450**	**~2,900**	**2,400**

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