vallourec

Press release

Vallourec reports first quarter 2017 results

Q1 2017

- Revenue of €783 million, up 16.7% year-on-year (down 1.5% excluding scope and exchange rate effects)
- EBITDA of -€21 million, up €51 million year-on-year
- Net result, Group share of -€126 million, up €158 million year-on-year
- Free cash flow of -€220 million compared to -€239 million in Q1 2016
- Net debt of €1,533 million at the end of Q1 2017 compared to 1,287 million at the end of 2016
- FY EBITDA 2017 targeted to be in the upper part of a €50 to €100 million improvement range vs. full year 2016

Boulogne-Billancourt (France), 26 April 2017 – Vallourec, world leader in premium tubular solutions, today announces its results for the first quarter of 2017. The consolidated financial information was presented by Vallourec's Management Board to its Supervisory Board on 25 April 2017.

Commenting on these results, Philippe Crouzet, Chairman of the Management Board, said:
"In the first quarter of 2017, our financial performance improved sequentially and compared to the first quarter of 2016. This is the direct consequence of the rigorous implementation of our Transformation Plan, of a favorable product mix in Brazil during this quarter, and, to a lesser extent, of the first benefits of the new momentum in the United States.
However, the timing of the Oil & Gas market recovery in the rest of the world remains unclear and other Group markets are still evolving in subdued environments. Vallourec keeps its focus on achieving ambitious cost reduction targets and strict cash management discipline.
The Group confirms it targets an EBITDA improvement ranging between €50 million and €100 million when compared to 2016. Nevertheless, considering better market trends in the US than initially expected, it now targets the upper part of this range.
With a rebalanced geographical footprint and a reinforced financial structure, Vallourec is well positioned to capture the opportunities of the global cycle recovery when it fully materialises."

Consolidated key figures

In millions of euros	Q1 2017	Q1 2016	Change YoY	Q4 2016	Change QoQ
Sales Volume (k tons)	**475**	**251**	*+89.2%*	*376*	*+26.3%*
Revenue	**783**	**671**	*+16.7%*	*838*	*-6.6%*
EBITDA	**(21)**	**(72)**	*+51m*	*(63)*	*+42m*
As % of sales	*-2.7%*	*-10.7%*	*+8.0 pts*	*-7.5%*	*+4.8 pts*
Operating income (loss)	**(111)**	**(290)**	*+179m*	*(188)*	*+77m*
Net income, Group share	**(126)**	**(284)**	*+158m*	*(183)*	*+57m*
Free cash flow[(1)]	**(220)**	**(239)**	*+19m*	*(3)*	*-217m*

(1) *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*

Information
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I - CONSOLIDATED REVENUE BY MARKET

In millions of euros	Q1 2017	Q1 2016	Change YoY	Q4 2016	Change QoQ
Oil & Gas, Petrochemicals	533	469	*+13.6%*	*550*	*-3.1%*
Power Generation	84	85	*-1.2%*	*151*	*-44.4%*
Industry & Other	166	117	*+41.9%*	*137*	*+21.2%*
Total	**783**	**671**	***+16.7%***	***838***	***-6.6%***

Over the first quarter of 2017, Vallourec recorded revenue of €783 million, up 16.7% compared with the first quarter of 2016. At constant scope and exchange rates revenue was down 1.5%, with a positive volume impact (+36.3%), mainly due to the volume rebound in the US more than offset by a negative price/mix effect (-37.8%) explained by three factors:

- a change in mix in Q1 2017 deliveries compared to a favorable Q1 2016,
- the price deterioration in the Oil & Gas market in 2016, and
- a change in geographical mix with higher US volumes sold at a lower average selling price than the Group average.

The scope effect (integration of Tianda, full consolidation of VSB and divestiture of VHET) was +9.7%[1] and the exchange rate effect was +8.5%.

Oil & Gas, Petrochemicals (68.1% of consolidated revenue)

Oil & Gas revenue reached €485 million in Q1 2017, up 10.5% year-on-year (+1.4% at constant exchange rates).

- **In the USA**, Oil & Gas revenue increased as the number of active rig count rose soundly (on average +26% qoq and +33% yoy), supporting final demand for OCTG tubes. As anticipated, Q1 2017 deliveries were locked at low prices and the increase in raw material costs weighed on margins. However, the positive momentum of the US market enabled Vallourec to announce during Q1 2017 price increases which will mostly impact the second half of 2017.

- **In the EAMEA region**, Oil & Gas volumes were up year-on-year as a result of the integration of Tianda deliveries and full consolidation of VSB exports in the region. However, revenue in the region was down mainly due to deliveries to NOCs at lower prices and with a poorer customer mix than in Q1 2016.

- **In Brazil**, revenue was up year-on-year, benefiting from higher than average OCTG deliveries during this quarter linked with the drilling of exploratory wells in the Libra field.

Petrochemicals revenue was €48 million in Q1 2017, up 60.0% year-on-year (+53.3% at constant exchange rates), as a result of the integration of Tianda Oil Pipe.

Power Generation (10.7% of consolidated revenue)

Power Generation revenue amounted to €84 million in Q1 2017, down 1.2% year-on-year (-2.4% at constant exchange rates), including the impact related to the integration of Tianda.

Industry & Other (21.2% of consolidated revenue)

[1] Scope effect calculated with regard to restated Q1 2016 revenue.

Industry & Other revenue amounted to €166 million in Q1 2017, up 41.9% year-on-year (+31.6% at constant exchange rates), including the impact related to the integration of Tianda.

In Europe, Industry & Other revenue was up essentially thanks to the Mechanical Engineering while the Automotive and Construction market segments remained relatively stable. The pricing environment, in a context of increasing raw material costs, remained however very challenging year on year.
In Brazil, Industry & Other revenue was significantly up mainly thanks to the important increase in the mine's revenue as a result of higher iron ore sales prices. The Automotive market recorded an increase in activity thanks to the heavy vehicles segment while Mechanical Engineering remained relatively stable.

II - Q1 2017 CONSOLIDATED RESULTS ANALYSIS

In Q1 2017, EBITDA stood at -€21 million, up by €51 million year-on-year, with:

- Consolidated revenue up 16.7% compared with Q1 2016, reaching €783 million mostly thanks to a positive scope effect (Tianda acquisition and full consolidation of VSB), higher OCTG volumes in North America and Brazil, and despite a negative price/mix effect in the USA and EAMEA on Oil & Gas deliveries;
- An industrial margin of €101 million, up €51 million compared with Q1 2016, reflecting savings as a result of the Transformation plan, the increase in revenue in particular in Brazilian offshore and the positive contribution related to the integration of Tianda and the full consolidation of VSB;
- Sales, general and administrative costs (SG&A) of €113 million, down 2.6% compared with Q1 2016 with cost savings being partly offset by a negative forex impact.

Operating result was a loss of €111 million, compared to a loss of €290 million in Q1 2016, resulting from higher EBITDA and from the absence of restructuring and impairment charges in Q1 2017.

Financial result was negative at -€43 million versus -€34 million in Q1 2016, resulting mainly from the recognition of a loss of €8 million related to the change in fair value of NSSMC shares held by Vallourec since 2009.

Income tax was a gain of €19 million in Q1 2017, compared to a gain of €28 million in Q1 2016, essentially related to the recognition of deferred tax assets.

The share attributable to non-controlling interests amounted to -€11 million in Q1 2017, compared to -€14 million in Q1 2016.

This resulted in a net loss, Group share of -€126 million in Q1 2017, compared to -€284 million in Q1 2016.

III - CASH FLOW & FINANCIAL POSITION

Over Q1 2017, negative free cash flow amounted to -€220 million, compared to -€239 million in Q1 2016. This is mainly explained by:

- Negative cash flow from operating activities of -€82 million compared to -€135 million in Q1 2016 ;
- An increase in operating working capital requirement of €104 million as a result of a seasonality effect and the activity recovery in the US, compared with an increase of €61 million in Q1 2016 ;
- Lower capital expenditure of -€34 million, compared to -€43 million in Q1 2016.

As at 31 March 2017, Group net debt increased by €246 million compared to 31 December 2016 to reach €1,533 million, including an increase of €24 million related to the disposal of a 60% interest in the Saint-Saulve steel mill. The gearing ratio at the end of Q1 2017 was 41.9% compared to 34.1% at the end of 2016.

Through amendments signed on 17 March 2017, the net debt-to-equity covenant associated to the Group's medium and long-term bank facilities has been revised with a threshold raised from 75% to 100% for the annual tests occurring at the end of 2018, 2019 and 2020.

IV - LIQUIDITY

As at 31 March 2017, Vallourec's cash position amounted to €1,013 million. Vallourec's medium and long-term committed facilities amounted to €2.3 billion (including €0.2 billion credit facilities maturing in July 2017), out of which €673 million were drawn.

At the same date, short-term debt amounted to € 1,462 million.

V – TRANSFORMATION PLAN

On 26 January 2017, Vallourec finalized the divestment of a 60% stake in the Saint Saulve steel mill to Asco Industries. Vallourec retains a 40% share in the steel mill.

Vallourec's new organization structured around four regions: North America, South America, Europe/Africa (EA), and the Middle East/Asia (MEA) and two central departments (Development & Innovation and Technology & Industry) is in place.

Vallourec continues to deploy its Transformation Plan through its new rationalized industrial footprint combined with the rigorous implementation of the structural cost reductions program.

VI - MARKET TRENDS & OUTLOOK

For 2017, Oil & Gas revenue in the US is expected to rebound more significantly than previously expected. In Brazil, drilling activity is expected to remain broadly stable compared to 2016, while revenue in EAMEA should still be impacted by the low activity and prices reflected in the backlog to be delivered in this region.

Vallourec does not expect any major change in its other businesses, with the exception of higher revenue from its iron ore sales in Brazil.

Initiatives deployed as part of the Transformation Plan will enable the Group to continue to lower its cost base.

Although it operates in a volatile and uncertain environment, the Group confirms it targets an EBITDA improvement ranging between €50 million and €100 million when compared to 2016. Nevertheless, considering better market trends in the US than initially expected, it now targets the upper part of this range.

About Vallourec

Vallourec is a world leader in premium tubular solutions for the energy markets and for demanding industrial applications such as oil & gas wells in harsh environments, new generation power plants, challenging architectural projects, and high-performance mechanical equipment. Vallourec's pioneering spirit and cutting edge R&D open new technological frontiers. With close to 19,000 dedicated and passionate employees in more than 20 countries, Vallourec works hand-in-hand with its customers to offer more than just tubes: Vallourec delivers innovative, safe, competitive and smart tubular solutions, to make every project possible.

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: SBF 120 and Next 150.

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 Q1 2017 results

- Analyst conference call / audio webcast at 6:30 pm (Paris time) to be held in English.

- To listen to the audio webcast: http://edge.media-server.com/m/go/vallourecQ12017

  To participate in the call, please dial:

  +44 20 3427 1916 (UK),
  +33 1 76 77 22 25 (France),
  +1 212 444 0412 (USA),
  +44 20 3427 1916 (Other countries)
  Conference code: 3110714

- Audio webcast and slides will be available on the website at:
  http://www.vallourec.com/EN/GROUP/FINANCE

Information and Forward-Looking Statements

This press release contains forward-looking statements. These statements include financial forecasts and estimates as well as 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 statements are reasonable, Vallourec cannot guarantee their accuracy or completeness and these forward-looking statements 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 may differ significantly from those expressed, induced or forecasted in the statements. 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 21 March 2017 (N° D.17-0191).

Calendar

12 May 2017	Annual Shareholders' Meeting
26 July 2017	Release of second quarter and first half 2017 results

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Appendices

Documents accompanying this release:

- Sales volume
- Forex
- Revenue by geographic region
- Revenue by market
- Cash flow statement
- Free cash flow
- Summary consolidated income statement
- Summary consolidated balance sheet

Sales volume

In thousands of tonnes	2017	2016	Change YoY
Q1	**475**	251	*+89.2%*
Q2		321	
Q3		333	
Q4		376	
Total		**1,281**	

Forex

Average exchange rate	Q1 2017	Q1 2016
EUR / USD	**1.06**	1.10
EUR / BRL	**3.35**	4.30
USD / BRL	**3.15**	3.91

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Revenue by geographic region

In millions of euros	Q1 2017	*As % of revenue*	Q1 2016	*As % of revenue*	Change YoY	*Q4 2016*
Europe	115	*14.7%*	135	*20.1%*	*-14.8 %*	*186*
North America	187	*23.9%*	128	*19.1%*	*+46.1%*	*193*
South America	163	*20.8%*	98	*14.6%*	*+66.3%*	*89*
Asia & Middle East	276	*35.2%*	171	*25.5%*	*+61.4%*	*289*
Rest of World	42	*5.4%*	139	*20.7%*	*-69.8%*	*81*
Total	**783**	***100.0%***	**671**	***100.0%***	***+16.7%***	***838***

Revenue by market

In millions of euros	Q1 2017	*As % of revenue*	Q1 2016	*As % of revenue*	Change YoY	*Q4 2016*
Oil & Gas	485	*62.0%*	439	*65.4%*	*+10.5%*	*517*
Petrochemicals	48	*6.1%*	30	*4.5%*	*+60.0%*	*33*
Oil & Gas, Petrochemicals	**533**	***68.1%***	**469**	***69.9%***	***+13.6%***	***550***
Power Generation	**84**	***10.7%***	**85**	***12.7%***	***-1.2%***	***151***
Mechanicals	72	*9.2%*	58	*8.6%*	*+24.1%*	*73*
Automotive	33	*4.2%*	22	*3.3%*	*+50.0%*	*25*
Construction & Other	61	*7.8%*	37	*5.5%*	*+64.9%*	*39*
Industry & Other	**166**	***21.2%***	**117**	***17.4%***	***+41.9%***	***137***
Total	**783**	***100.0%***	**671**	***100.0%***	***+16.7%***	***838***

Cash flow statement

In millions of euros	Q1 2017	Q1 2016	Q4 2016
Cash flow from operating activities	(82)	(135)	(124)
Change in operating WCR *+ decrease, (increase)*	(104)	(61)	+196
Net cash flows from operating activities	**(186)**	**(196)**	**+72**
Gross capital expenditure	(34)	(43)	(75)
Financial investments	-	-	-
Capital increase	-	-	21
Impact of acquisition	-	-	(248)
Dividends paid	-	-	-
Asset disposals & other items	(26)	(31)	(37)
Change in net debt ***+ decrease, (increase)***	**(246)**	**(270)**	**(267)**
Net debt (end of period)	1,533	1,789	1,287

Free cash flow

In millions of euros	Q1 2017	Q1 2016	Change
Cash flow from operating activities (FFO) (A)	(82)	(135)	+53
Change in operating WCR (B) *[+ decrease, (increase)]*	(104)	(61)	(43)
Gross capital expenditure (C)	(34)	(43)	+9
Free cash flow (A)+(B)+(C)	**(220)**	**(239)**	**+19**

Summary consolidated income statement

In millions of euros	Q1 2017	Q1 2016	Change YoY	Q4 2016	Change QoQ
REVENUE	**783**	**671**	***+16.7%***	**838**	***-6.6%***
Cost of sales[1]	**(682)**	(621)	*+9.8%*	(778)	*-12.3%*
Industrial margin	***101***	***50***	***+102.0%***	***60***	***+68.3%***
(as % of revenue)	*12.9%*	*7.5%*	*+5.4 pts*	*7.2%*	*+5.7 pts*
SG&A costs[1]	**(113)**	(116)	*-2.6%*	(117)	*-3.0%*
Other income (expense), net	**(9)**	(6)	*na*	(6)	*na*
EBITDA	**(21)**	**(72)**	***+51m***	**(63)**	***+42m***
EBITDA as % of sales	*-2.7%*	*-10,7 %*	*+8.0 pts*	*-7.5%*	*+4.8pts*
Depreciation of industrial assets	**(79)**	(70)	*+12.9 %*	(73)	*+8.2%*
Amortization and other depreciation	**(11)**	(11)	*na*	(16)	*na*
Impairment of assets	**-**	(63)	*na*	(1)	*na*
Assets disposals, restructuring and other	**-**	(74)	*na*	(35)	*na*
OPERATING INCOME (LOSS)	**(111)**	**(290)**	***+179m***	**(188)**	***+77m***
Financial income (loss)	**(43)**	(34)	*+26.5%*	(31)	*+38.7%*
PRE- TAX INCOME (LOSS)	**(154)**	**(324)**	***+170m***	**(220)**	***+66m***
Income tax	**19**	28	*na*	28	*na*
Share in net income (loss) of associates	**(2)**	(2)	*na*	(4)	*na*
NET INCOME FOR THE CONSOLIDATED ENTITY	**(137)**	**(298)**	***+161m***	**(196)**	***+59m***
Non-controlling interests	**(11)**	(14)	*na*	(13)	*na*
NET INCOME, GROUP SHARE	**(126)**	**(284)**	***+158m***	**(183)**	***+57m***
EARNINGS PER SHARE (in €)	**-0.3**	**-2.1**	***na***	**(0.1)**	***na***

(1) *Before depreciation and amortization*
na: not applicable

Summary consolidated balance sheet

In millions of euros					
Assets	**31-Mar 2017**	**31-Dec 2016**	**Liabilities**	**31-Mar 2017**	**31-Dec 2016**
			Equity, Group share	**3,183**	3,284
Intangible assets, net	**117**	125	Non-controlling interests	**479**	494
Goodwill	**381**	383	**Total equity**	**3,662**	**3,778**
Net property, plant and equipment	**3,555**	3,618	Shareholder loan	**87**	84
Biological assets	**88**	88	Bank loans and other borrowings	**1,084**	1,121
Associates	**128**	125	Employee benefits	**224**	227
Other non-current assets	**330**	348	Deferred tax liabilities	**65**	80
Deferred tax assets	**202**	190	Other long-term liabilities	**124**	121
Total non-current assets	**4,801**	**4,877**	**Total non-current liabilities**	**1,497**	**1,549**
Inventories and work-in-progress	**1,199**	1,035	Provisions	**271**	280
Trade and other receivables	**587**	546	Overdrafts and other short-term borrowings	**1,462**	1,453
Derivatives - assets	**7**	58	Trade payables	**580**	530
Other current assets	**293**	283	Derivatives - liabilities	**34**	105
Cash and cash equivalents	**1,013**	1,287	Other current liabilities	**307**	310
Total current assets	**3,099**	**3,209**	**Total current liabilities**	**2,654**	**2,678**
Assets held for sale	**-**	46	Liabilities disposal for sale	**-**	43
TOTAL ASSETS	**7,900**	**8,132**	**TOTAL LIABILITIES**	**7,900**	**8,132**
Net debt	**1,533**	**1,287**	**Net income, Group share**	**(126)**	**(758)**
Gearing ratio	**41.9%**	**34.1%**			

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