Press Release

Vallourec reports Q2 and Half Year 2011 results

Boulogne Billancourt, 27 July 2011 - Vallourec, world leader in premium tubular solutions, today announced its results for the second quarter and first half of 2011. The consolidated financial statements were presented by Vallourec's Management Board to its Supervisory Board.

Key Figures

Q2 2011

- **Volume and sales up 12% versus Q1 2011**
- **EBITDA up 25% to €254 million representing 19.7% of sales**
- **Net income, Group share up 37% at €112 million**

H1 2011

- **Volume up 28% year on year to 1,062 thousand tonnes**
- **Sales up 22% to €2,438 million**
- **EBITDA up 11% to €458 million representing 18.8% of sales**
- **Net income, Group share up 4% at €194 million**

Highlights

- **Successful start-up of new capacity at Valinox Nucléaire, France**
- **Acquisition of 19.5% of Tianda Oil Pipe, China**
- **Project to acquire Zamil Pipes and construct new threading facility, Saudi Arabia**

Information
Half year financial statements at 30 June 2010 and 30 June 2011 are subject to limited audit review.
Full year financial statements at 31 December 2010 have been audited. Quarterly statements are unaudited and not subject to any review.

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

"As anticipated, the activity of the Group during the first half of 2011 was broadly in line with that of the second half of 2010, with a second quarter better than the first. Our results reflect, however, the strong increase in raw material costs which we are progressively recovering in our sales prices.

The markets remain well oriented and our mills are operating at high utilisation rates. Our activity is going to progress in the second half. We should, nevertheless, continue to operate in a context marked by the volatility and high level of raw material costs as well as the strengthening of the euro against the dollar. The costs associated with the construction and start up of our new facilities will also continue to impact our margins.

In this transition year several strategic projects are in progress to respond to growth. The new mill VSB in Brazil is in the process of obtaining its certifications and the first orders have been taken for delivery in the fourth quarter. In the USA, the construction of our new tube mill is progressing well. Other projects underway will enable us to strengthen our local presence in regions of strong development such as China through our partnership with Tianda Oil Pipe and the construction of two new mills to serve the power generation market as well as in the Middle East with the acquisition of Zamil Pipes and the construction of a new finishing line."

Summary of results for second quarter (Q2) and first half (H1) 2011

Comparison of Q2 2011 with Q1 2011 and Q2 2010; H1 2011 with H1 2010

In € million	**Q2 2011**	**Q1 2011**	***Change QoQ***	**Q2 2010**	***Change YoY***	**H1 2011**	**H1 2010**	***Change YoY***
Sales Volume (k tonnes)	**561**	501	*+12%*	484	*+16%*	**1,062**	828	+28%
Sales	**1,290**	1,148	*+12%*	1,122	*+15%*	**2,438**	1,999	*+22%*
EBITDA	**254**	203	*+25%*	264	*-4%*	**458**	413	*+11%*
As % of sales	**19.7%**	17.7%		23.6%		**18.8%**	20.6%	
Total net income	**126**	93	*+36%*	136	*-7%*	**219**	203	*+8%*
Net income, Group share	**112**	82	*+37%*	126	*-11%*	**194**	187	*+4%*

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MARKET ENVIRONMENT

Energy markets

Oil & Gas

Crude oil prices fluctuated at high levels during Q2 2011 averaging $102/bbl[1], to be compared to an average of $79/bbl in 2010. Oil prices are expected to remain at high levels and international E&P (exploration and production) spending continues to grow strongly. Forecast expenditure has been revised upwards to $529 billion in 2011, an annual increase of 16% versus 11% in the previous forecast[2]. Whilst world oil demand remains strong, at over 89mb/d, the global estimate for 2011 has been revised moderately downward by the EIA as persistent high prices may weaken economic activity.

In the USA, the rig count continued to increase during the second quarter, up 11% since the start of the year, reaching 1,886 active rigs on 1 July. The rising oil prices and ongoing low natural gas prices continue to drive the shift towards drilling for oil rather than gas. As a result, 1,006 rigs were drilling for oil, up 31% year to date, whereas rigs drilling for gas were down 5%. Approximately two-thirds of all drilling activity in the USA is taking place in shale plays, and 57% of rigs now operate horizontal drilling. OCTG prices rose moderately during the second quarter. Demand for OCTG is expected to remain at a high level, while distributor inventories were at 4.4 months of consumption[3] at the end of June.

In the Gulf of Mexico, despite the lifting of the deepwater offshore drilling moratorium, the return to offshore drilling activity is progressing slowly, with 33 rigs in activity compared to 24 at the end of 2010.

In the rest of the world, the international rig count has remained at a high level, above 1,100 rigs. National oil companies, international majors and independents are still very active and there are numerous tenders ongoing. Virtually all of the largest global E&P spenders are expected to increase capex during 2011.

Power Generation

New projects for conventional coal-fired power plants remain concentrated in China and India, where local competition is intense. Following the Fukushima accident, different governments have reviewed their policies concerning nuclear power. France, the UK and China, among others, remain committed to developing nuclear power generation. Nevertheless its overall contribution to the long-term global energy mix is likely to be lower than previously estimated, while gas-fired power generation will probably increase.

Petrochemicals

Higher E&P capital budgets are benefiting the process market with related spending for several large LNG projects. In the USA, numerous investments have been announced to take advantage of the shale gas resources, with an increasing focus on gas-to-liquids (GTL) for transportation fuel. Major investments in refining and gas processing are underway in China,

[1] WTI
[2] Barclays Capital Global E&P Capital Spending Update – June 2011
[3] Preston Pipe Report

India, Australia, Indonesia and the Middle East. The Gulf region is planning to significantly increase petrochemical production.

Non-Energy markets

Demand across non-energy markets has been robust throughout the first half of the year, supported by world industrial production growth. However, the rate of growth is expected to moderate during the second half of the year due to a combination of government policies driving lower consumption in OECD countries, and rising inflation leading to high interest rates in non-OECD countries. Mechanical engineering remains robust, driven by German equipment manufacturing for export.

Raw materials

Raw material prices remained at high levels throughout the first half of 2011, significantly higher than in 2010, and close to the peak levels of 2008, driven by record levels of steel production. Prices are expected to fluctuate around the current high levels during the coming months.

Currency

The Euro strengthened 8% against the US dollar during the first half of the year, reaching $1.45 at the end of June 2011 versus $1.34 at the end of December 2010. The Brazilian real also continued to strengthen versus the US dollar, up 7% since the start of the year.

SALES BY MARKET

Comparison of Q2 2011 with Q1 2011 and Q2 2010; H1 2011 with H1 2010

In € million	**Q2 2011**	**Q1 2011**	***Change QoQ***	**Q2 2010**	***Change YoY***	**H1 2011**	**H1 2010**	***Change YoY***
Oil & Gas	**650**	630	*+3%*	553	*+18%*	**1,280**	1,000	28%
Power Generation	**180**	135	*+33%*	222	*-19%*	**315**	413	-24%
Petrochemicals	**100**	80	*+25%*	89	*+13%*	**180**	159	+13%
Total Energy	**930**	845	*+10%*	864	*+8%*	**1,775**	1,572	+13%
% of total sales	**72%**	74%		77%		**73%**	79%	
Mechanical	**169**	142	*+19%*	105	*+61%*	**311**	181	+72%
Automotive	**98**	82	*+20%*	79	*+24%*	**180**	144	+25%
Construction & Other	**93**	79	*+17%*	74	*+25%*	**172**	102	+69%
Total non-Energy	**360**	303	*+19%*	258	*+40%*	**663**	427	+55%
% of total sales	**28%**	26%		23%		**27%**	21%	
Total	**1,290**	1,148	*+12%*	1,122	*+15%*	**2,438**	1,999	+22%

Energy

Total Energy sales increased by 10% sequentially to reach €930 million in Q2 2011, 72% of total sales. For H1 2011, Energy sales amounted to €1,775 million, up 13% year on year, representing 73% of total Group sales versus 79% of sales in H1 2010.

Oil & Gas second quarter sales increased by 3% sequentially to €650 million, bringing sales for H1 2011 to €1,280 million, up 28% year on year.

In the USA, sales increased during the second quarter, driven by the high drilling activity in the shale plays. Moderate price increases were implemented to start compensating the rise in raw material costs. Vallourec's new VAM SG "shale gas" connection and finished goods offer (combined pipe and VAM premium connection) have met with commercial success. Vallourec's mills operated at full capacity, supported by imports of small diameter tubes from its European plants, to meet customer demand. High oil prices should continue to encourage drilling in new shale plays like Utica (Ohio) in the US.

In the rest of the world, sales were lower than anticipated in Brazil as delivery of certain contracts for offshore line pipe projects were deferred to the second half of the year. However, booking activity was dynamic in most areas and the order book lengthened with sales for the coming quarters. Offshore line pipe project activity in Brazil and West Africa should bring additional volumes in the second part of the year.

In **Power Generation**, sales amounted to €180 million during Q2 2011, up 33% sequentially. As anticipated, sales for coal-fired power plants benefited from a better mix effect during the quarter. Nevertheless, for H1 2011, sales remain significantly below prior year level, down 24%, as local competition in the major active markets is maintaining pressure on prices and volumes.

Sales for nuclear power plants grew strongly during the quarter. With the start-up of the new capacities for steam generator tubes in France, sales will increase further in the second half of the year, supported by re-tubing projects in France and the ongoing construction of new nuclear power plants in China.

Petrochemicals sales amounted to €100 million during Q2 2011, up 25% sequentially. They represented €180 million in H1 2011, up 13% compared to H1 2010. Sales included deliveries for a gas compression facility in Abu Dhabi and a steam-assisted gravity drainage (SAGD) facility in the Canadian oil sands. Orders increased for deliveries in the second half of the year.

Non-Energy

In Non-Energy markets (**Mechanical, Automotive, Construction and other**) sales increased 19% sequentially with strong growth across all segments, to reach €360 million during the quarter. For H1 2011, sales amounted to €663 million, up 55% year on year, representing 27% of total sales versus 21% in H1 2010. Mechanical Engineering sales continue to be driven by in the high activity of the German machine building industry. Sales to European and North American distributors also increased during the first half of the year. Automotive sales still benefited from robust demand in Brazil, particularly for heavy vehicles. In the second half of the year, sales will be principally supported by the dynamism of German exports.

RESULTS

Summary consolidated income statement

Comparison of Q2 2011 with Q1 2011 and Q2 2010; H1 2011 with H1 2010

In € million	**Q2 2011**	**Q1 2011**	***Change QoQ***	**Q2 2010**	***Change YoY***	**H1 2011**	**H1 2010**	***Change YoY***
Sales Volume (k tonnes)	**561**	501	*+12%*	484	*+16%*	**1,062**	828	+28%
Sales	**1,290**	1,148	*+12%*	1,122	*+15%*	**2,438**	1,999	+22%
Cost of sales[1] (as % of sales)	**68.4%**	69.2%		64.2%		**68.8%**	66.7%	
SG&A costs[1] (as % of sales)	**11.1%**	12.7%		11.3%		**11.8%**	11.8%	
EBITDA	**254**	203	*+25%*	264	*-4%*	**458**	413	+11%
As % of sales	**19.7%**	17.7%		23.6%		**18.8%**	20.6%	
Net income, Group share	**112**	82	*+37%*	126	*-11%*	194	187	+4%

During Q2 2011, all of Vallourec's mills operated at high levels of activity. Sales volume of 561 thousand tonnes was up 12% versus Q1 2011. For H1 2011, sales volume increased by 28% year on year to 1,062 thousand tonnes.

Consolidated sales in Q2 2011 increased by 12% sequentially to €1,290 million. In addition to volume growth (+12%), sales benefited from a positive combined price/mix effect (+2%) with sales price increases partially offset by strong growth of lower priced non-energy sales. The currency translation effect was negative (-2%). For H1 2011, sales increased by 22% year on year to €2,438 million. The higher sales volume (+28%) and scope (+4%) was partly offset by a negative combined price/mix effect (-11%), whilst the currency translation effect was negligible.

EBITDA for Q2 2011 amounted to €254 million, representing 19.7% of sales, up 25% compared to Q1 2011. While the strong increase in raw material costs which occurred at the start of the year impacted the second quarter, higher volumes allowed for better absorption of fixed costs. Consequently, the cost of sales was slightly below that of Q1 2011, at 68% of sales. The sales, general and administrative costs (SG&A) which include all costs relating to new projects, were broadly stable quarter on quarter in value terms and therefore lower as a percentage of sales.

EBITDA in H1 2011 increased by 11% year on year to €458 million, representing 18.8% of sales. The cost of sales at 69% of sales, increased slightly versus H1 2010 (67%), reflecting the shift in product mix together with higher raw material costs. SG&A costs were stable as a percentage of sales.

Depreciation of industrial assets amounted to €47 million in Q2 2011, and €101 million for H1 2011, an increase of €17 million versus H1 2010.

Financial charges amounted to €24 million in H1 2011, compared to the €9 million charges in H1 2010.

The effective tax rate was 29.1% for H1 2011.

[1] Before depreciation and amortization

Total net income, Group share amounted to €112 million in Q2 2011, up 37% compared Q1 2011. For H1 2011, net income Group share amounted to €194 million, up 4% year on year.

Cash flow

Gross cash flow amounted to €193 million in Q2 2011 compared to €74 million in Q1 2011. Working capital requirement increased by €59 million as inventories increased in advance of the summer stoppages in Europe.

Gross capital expenditure amounted to €194 million during the quarter, in line with the previous quarter. For H1 2011, gross capital expenditure amounted to €389 million, of which €271 million related to strategic projects, essentially VSB in Brazil and the new pipe mill in the USA.

Financial investments of €75 million related to the acquisition of 19.5% of the share capital of Tianda Oil Pipe Company Limited on 1 April 2011.

Total cash outflow amounted to €155 million during the quarter, increasing the net debt to €879 million at 30 June 2011, compared to €381 million at 31 December 2010, representing 18.5% of equity (€4,745 million).

At 30 June 2011, the Group's overdrafts and short term borrowings exceeded cash and cash equivalents by €329 million. Of the €1,446 million of bank loans and other borrowings, 38% has a maturity in excess of 1 year. Vallourec maintains its undrawn confirmed credit lines of around €1.3 billion which includes a revolving credit facility of €1 billion which matures in February 2016.

Dividend payment

The dividend in respect of 2010 of €1.30 per share was paid on 7 July 2011 with the creation of 1,140,338 new shares and cash payment of €67.6 million.

OUTLOOK

With a business environment which remains positive across most of its markets, Vallourec forecasts an increase in sales volumes in H2 2011 compared to H1 2011. Despite the progressive implementation of price increases to compensate higher raw material costs, overall sales should progress at a lower pace than volumes due to the impact of a weaker dollar and a different mix.

EBITDA in H2 is expected to be slightly above the H1 2011 level. Vallourec will benefit from the higher activity and the ongoing price increases. Their additional contribution however will be offset to a large extent by the increased start up costs related to its projects, notably in Brazil and the USA, by seasonal expenses (maintenance, employee shareholding) and by the dollar weakness.

During this transition year, Vallourec is investing in important projects to increase its industrial and commercial presence in the regions of the world where the Group's local customer demand is strong and growing. These investments are transforming the Group and will contribute to Vallourec's future successes.

ABOUT VALLOUREC

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

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

Listed on NYSE Euronext in Paris (ISIN code: FR0000120354, Ticker VK) and eligible for the Deferred Settlement System, Vallourec is included in the following indices: MSCI World Index, Euronext 100 and CAC 40.

In the United States, Vallourec has a sponsored Level 1 American Depository Receipt (ADR) program (ISIN code: US92023R2094, Ticker: VLOWY). The ratio of Vallourec ADR to ordinary shares is 5:1.

www.vallourec.com

PRESENTATION OF Q2 AND H1 2011 RESULTS

Wednesday 27 July

- Analyst conference call at 6:30 pm (CET) to be held in English
  To participate in the call, please dial:
  0800 073 0483 (UK), 0805 102 743 (FR), 1877 328 4999 (USA),
  +44 1452 561 488 (other countries)
  Conference code: 58726770

Thursday 28 July

- Press conference at 8:30am
- Analyst meeting in Paris at 10:00am (CET) to be held in French
- Maison des Centraliens
  8 rue Jean Goujon – Metro Franklin Roosevelt
  The slides and audiocast of the presentation with simultaneous translation in English, will be available on the website: www.vallourec.com

CALENDAR 2011

- 5 – 7 October: Investor Day in Brazil
- 9 November: Release of Q3 2011 Results

FOR FURTHER INFORMATION, PLEASE CONTACT

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APPENDICES

Documents accompanying this release:

- Data on sales volume (metric tonnes)
- Summary consolidated income statement
- Summary consolidated balance sheet
- Summary cash flow statement

Sales volume

Sales volume corresponds to the volume in metric tonnes of hot-rolled tubes produced and delivered by Vallourec's rolling mills.

In thousands of tonnes	2011	2010	∆ 2011 / 2010
Q1	**500.7**	**344.0**	**+45.6%**
Q2	**561.2**	**484.2**	**+15.9%**
Q3		**507.2**	
Q4		**553.0**	
Total		**1,888.4**	

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Summary consolidated income statement

VALLOUREC (in € million)	**Q2 2011**	**Q1 2011**	**Q2 2010**	**Change Q2'11 / Q1'11**	**Change Q2'11 / Q2'10**
Sales	**1,290.1**	1,147.8	1,121.8	*+12.4%*	*+15.0%*
Cost of sales[1]	**-882.3**	-794.5	-720.4	*+11.1%*	*+22.5%*
Selling, general and administrative costs[1]	**-142.6**	-145.9	-127.0	*-2.3%*	*+12.3%*
Other income (expense), net[1]	**-10.9**	-4.0	-10.0		
EBITDA	**254.3**	203.4	264.4	*+25.0%*	*-3.8%*
EBITDA as % of sales	***19.7%***	*17.7%*	*23.6%*		
Depreciation of industrial assets	**-47.3**	-53.6	-43.4	*-11.8%*	*+9.0%*
Other (amortization, impairment & restructuring)	**-17.5**	-7.9	-12.6		
OPERATING INCOME	**189.5**	141.9	208.4	*+33.5%*	*-9.1%*
FINANCIAL INCOME	**-17.7**	-6.7	-3.7		
INCOME BEFORE TAX	**171.8**	135.2	204.7	*+27.1%*	*-16.1%*
Income tax	**-45.3**	-44.1	-72.0		
Net income of equity affiliates	**-0.2**	1.6	3.4		
CONSOLIDATED NET INCOME	**126.3**	92.7	136.1	*+36.2%*	*-7.2%*
NET INCOME, GROUP SHARE	**112.1**	81.9	125.9	*+36.9%*	*-11.0%*

[1] Before depreciation and amortization

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Summary consolidated income statement

(in € million)

VALLOUREC (in € million)	**H1 2011**	***as a % of sales***	**H1 2010**	***as a % of sales***	**2011 / 2010**
Sales	**2,437.9**		1,999.2		+21.9%
Cost of sales	**-1,676.8**	*68.8%*	-1,334.0	*66.7%*	+25.7%
Selling, general and administrative costs[1]	**-288.5**	*11.8%*	-235.4	*11.8%*	+22.6%
Other income (expense), net[1]	**-14.9**	*0.6%*	-17.0	*0.9%*	-12.4%
EBITDA	**457.7**	*18.8%*	412.8	*20.6%*	+10.9%
Depreciation of industrial assets	**-100.9**	*4.1%*	-83.9	*4.2%*	+20.3%
Other (amortization, impairment & restructuring)	**-25.4**		-21.8		
OPERATING INCOME	**331.4**	*13.6%*	307.1	*15.4%*	+7.9%
FINANCIAL INCOME	**-24.4**		-9.5		
INCOME BEFORE TAX	**307.0**	*12.6%*	297.6	*14.9%*	+3.2%
Income tax	**-89.4**		-100.7		
Net income of equity affiliates	**1.4**		6.1		
CONSOLIDATED NET INCOME	**219.0**	*9.0%*	203.0	*10.2%*	+7.9%
NET INCOME, GROUP SHARE	**194.0**		186.7		+3.9%

[1] Before depreciation and amortization

Summary consolidated balance sheet

VALLOUREC

(in € million)

	30/06/11	31/12/10		30/06/11	31/12/10
Intangible assets, net	235.0	266.5	Shareholders' equity [1]	4,492.6	4,556.4
Goodwill	474.9	506.4	Minority interests	252.0	267.2
Property, plant and equipment, net	3,651.8	3,484.4	**Total equity**	**4,744.6**	**4,823.6**
Investments in equity affiliates	163.4	64.6			
Other non-current assets	200.0	235.2			
Deferred tax assets	56.9	59.8	Bank loans and other borrowings	550.4	813.7
Total non-current assets	**4,782.0**	**4,616.9**	Employee benefits	120.3	122.3
			Deferred tax liabilities	161.8	136.6
			Other long-term liabilities	50.2	59.5
			Total non-current liabilities	**882.7**	**1,132.1**
Inventories and work-in-progress	1,367.5	1,190.3	Provisions	131.9	148.2
Trade and other receivables	923.5	863.6	Overdrafts and other short-term bank borrowings	895.1	220.7
Derivatives - assets	96.2	35.7	Trade payables	633.6	647.4
Other current assets	182.3	188.3	Derivatives-liabilities	22.2	29.7
Cash and cash equivalents	566.2	653.8	Other current liabilities	607.6	546.9
Total current assets	**3,135.7**	**2,931.7**	**Total current liabilities**	**2,290.4**	**1,592.9**
TOTAL ASSETS	7,917.7	7,548.6	TOTAL LIABILITIES	7,917.7	7,548.6

Net debt	879.3	380.6	[1] Net income, Group share	194.0	409.6

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Summary consolidated cash flow statement

(in € million)	Q2'11	Q1'11	Q2'10	H1'11	H1'10
Gross cash flow from operations	**192.7**	73.7	239.3	**266.4**	323.6
Change in gross WCR [+ decrease, - increase]	**-59.2**	-240.2	-184.4	**-299.4**	-185.9
Operating cash flows	**133.5**	-166.5	54.9	**-33.0**	137.7
Gross capital expenditure	**-193.9**	-194.7	-166.7	**-388.6**	-303.4
Financial Investments	**-75.3**	0.0	-144.9	**-75.3**	-161.1
Dividends paid	**-10.7**	-7.1	-79.3	**-17.8**	-82.9
Asset disposals & other elements	**-8.7**	24.7	-33.1	**16.0**	-11.5
Change in net debt [+decrease, -increase]	**-155.1**	-343.6	-369.1	**-498.7**	-421.2

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