Press Release

Vallourec reports Q1 2012 results

Boulogne-Billancourt, 10 May 2012 - Vallourec, world leader in premium tubular solutions, today announced its results for the first quarter 2012. The consolidated financial statements were presented by Vallourec's Management Board to its Supervisory Board.

Q1 results as anticipated:

- **Sales volume of 504 thousand tonnes (+1% vs Q1 2011)**
- **Sales of € 1,199 million (+4% vs Q1 2011)**
- **EBITDA of € 152 million representing 12.7% of sales**
- **Net income, Group share of € 29 million (€ 82 m in Q1 2011)**

Outlook for 2012:

- **Sales growth of around 5%**
- **Slight margin improvement anticipated in Q2 and coming quarters leading to full year EBITDA margin close to 15%**

Summary of results for the first quarter (Q1) 2012

Comparison with Q4 2011 and Q1 2011

In € million	**Q1 2012**	**Q1 2011**	***Change YoY***	**Q4 2011**	***Change QoQ***
Sales Volume[1] (k tonnes)	**504**	501	*+1%*	589	*-14%*
Sales	**1,199**	1,148	*+4%*	1,553	*-23%*
EBITDA	**152**	203	*-25%*	254	*-40%*
As % of sales	**12.7%**	17.7%		16.4%	
Total net income	**40**	93	*-57%*	133	*-70%*
Net income, Group share	**29**	82	*-65%*	117	*-76%*

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

Information
Quarterly statements are unaudited.
Unless otherwise specified, the changes indicated are expressed in comparison with the previous year.

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

"As anticipated, the Group recorded a weak performance during the quarter. We continue to see sustained demand from the Oil & Gas market, with high oil prices supporting a high level of investment for exploration and production, and a growing demand for our premium products, notably our VAM 21 series for the most challenging environments.

However, demand for other markets remains weak, below our forecast at the start of the year. The most affected markets are power generation, industrial, and automotive, where lower volumes are accompanied with a less favourable product mix and pressure on prices. We are adjusting the level of activity of our European mills, which are the most impacted, to this environment. A management reorganization of our European operations has been implemented in order to better focus on manufacturing efficiency, cost reduction and marketing initiatives.

Our strategic projects in Brazil and the USA are progressing but will be fully operational later than originally expected. Based on the outlook for sales and customer's commitments, we are confident, that these projects are well positioned both from a geographical and product standpoint.

In addition, the Group is affected by the price of the iron ore sold from our Brazilian mine, which is significantly lower than last year and does not yet show signs of recovery.

Overall, despite the increasing contribution from our Oil & Gas activities, the EBITDA margin in 2012 will be affected largely by the weak economic environment in our other markets, particularly in Europe, and to a lesser extent by the lower revenues from iron ore and the negative contribution of our two major industrial projects.

The actions the Group is taking, our strong position in the growing Oil & Gas market and the slower pace of recovery expected in the other markets will result in the EBITDA margin improving in Q2 and the coming quarters, but the improvement will be more gradual than initially anticipated."

MARKET ENVIRONMENT

Oil prices stayed at high levels during Q1 2012, supporting the planned levels of exploration and production investments by international energy companies. This has been most notable in the USA, where oil directed drilling increased by 11% during the quarter, offsetting the 19% decline in gas directed drilling caused by low natural gas prices. Overall, the USA rig count remained broadly stable during the quarter, at 1,979 rigs and it is expected to remain around this level throughout the year, providing a stable pricing environment for OCTG. The international rig count was also stable (+1%) during the quarter at 1,192 rigs and is expected to stay around this high level in 2012.

As a result of the uncertain economic environment in Europe during Q1 2012, distributors for industrial products, notably in France and southern Europe, maintained their inventories at low levels, reducing demand for pipe for the machine building, construction and automotive industries. The hoped-for signs of improvement failed to materialise and visibility for the coming quarters remains limited, with no significant pick-up in orders. This is putting pressure on pricing.

The Power generation market remains subdued with declining investment in conventional thermal power.

In Brazil, industrial production continued to contract; whilst imports increased, encouraged by the strong currency. The recent easing of credit conditions by the central bank is intended to stimulate the economy and reduce the overvaluation of the real.

CONSOLIDATED SALES

Consolidated sales in Q1 2012 amounted to € 1,199 million, up 4% year on year, but down 23% versus the high level of sales recorded in Q4 2011, due to lower sales volume and a less favourable product mix.

SALES VOLUME

In Q1 2012, sales volume of rolled tubes amounted to 504 thousand tonnes, broadly flat year on year (+1%), but down 14% sequentially due to lower shipments from Europe during the quarter and advanced shipments of Oil & Gas products in Q4 2011.

SALES BY REGION

Comparison with Q4 2011 and Q1 2011

In € million	**Q1 2012**	**As % of Sales**	**Q1 2011**	***Change YoY***	**Q4 2011**	***Change QoQ***
Europe	301	25%	304	*-1%*	420	*-28%*
North America	365	30%	299	*+22%*	401	*-9%*
South America	278	23%	268	*+4%*	308	*-10%*
Asia & Middle East	167	14%	199	*-16%*	297	*-44%*
Rest of World	88	7%	78	*+13%*	127	*-31%*
Total	1,199	100%	1,148	*+4%*	1,553	*-23%*

In Europe, Q1 2012 sales were flat compared to the prior year, but declined by 28% sequentially. The low bookings recorded for industrial segments in the second half of 2011 resulted in lower sales.

In North America, sales were up 22% year-on-year, reflecting the high level of drilling activity in the shale basins, however they were down 9% versus a strong Q4.

In South America, sales were up 4% year-on-year, but down 10% sequentially, impacted by the slowdown in industrial growth in Brazil and lower iron ore sales, whilst sales of Oil & Gas products were broadly stable.

Sales to Asia and the Middle East were down 16% versus prior year, reflecting notably lower power generation sales in China. This, together with lower Oil & Gas sales compared to a strong Q4 2011, contributed to the steep sequential decline.

SALES BY MARKET

Comparison with Q4 2011 and Q1 2011

In € million	Q1 2012	Q1 2011	*Change YoY*	Q4 2011	*Change QoQ*
Oil & Gas	**700**	630	*+11%*	880	*-20%*
Power Generation	**138**	135	*+2%*	220	*-37%*
Petrochemicals	**85**	80	*+6%*	93	*-9%*
Total Energy	**923**	845	*+9%*	1,193	*-23%*
% of total sales	**77%**	74%		77%	
Mechanical	**125**	142	*-12%*	186	*-33%*
Automotive	**65**	82	*-21%*	82	*-21%*
Construction & Other	**86**	79	*+9%*	92	*-7%*
Total Non-Energy	**276**	303	*-9%*	360	*-23%*
% of total sales	**23%**	26%		23%	
Total	**1,199**	1,148	*+4%*	1,553	*-23%*

Energy

In Q1 2012, total Energy sales amounted to € 923 million, up 9% versus Q1 2011, down 23% sequentially. They represent 77% of total sales, a proportion identical to that of Q4 2011.

Oil & Gas sales amounted to € 700 million during Q1 2012, up 11% year-on-year, but down 20% compared to the high level of sales during Q4 2011.

In the USA, mills continued to run at high utilization rates and sales benefitted from the high level of drilling activity with increasing demand for sour service pipe grades, notably to serve drilling in the Eagle Ford shale oil basin. The pick-up in activity in the Gulf of Mexico is increasing demand for premium products.

In the rest of the world, Q1 sales declined sequentially mainly due to lower sales in the Middle East and North Africa, compared to Q4 2011 which benefited from high deliveries and some advanced shipments.

Oil & Gas sales are expected to grow in 2012, benefiting from the price increases achieved in 2011 and a sustained level of drilling activity in the USA, Brazil and the rest of the world. The international backlog currently stands at around 6 months.

In **Power Generation**, sales amounted to € 138 million in Q1 2012, up 2% year-on-year, but down 37% versus a strong Q4 2011.

Sales for conventional coal-fired power plants were broadly stable versus Q1 2011, with an increase in sales in Europe and the USA offsetting lower sales to Asia. They declined sequentially due to lower volumes and a less favourable product mix. The pricing environment is competitive and the level of bookings during the quarter was below expectations. The construction of several new power plants in India, Korea and China are facing delays and pipe deliveries, initially scheduled for Q2, have been postponed at the request of customers.

Sales for nuclear power plants were low during the quarter compared to a seasonally high level in Q4 2011.

As a result of the postponed deliveries and low bookings in Q1, Vallourec now expects Power Generation sales in 2012 to be similar to 2011.

Petrochemicals sales amounted to € 85 million during Q1 2012 compared with € 80 million in Q1 2011 and € 93 million in Q4 2011.

Sales were largely driven by activity in the USA and Asia and sustained activity in the Middle East, offset by lower sales in Europe.

Non-Energy

As anticipated, non-Energy sales (**Mechanical, Automotive, Construction and other**) were impacted by the slowdown in bookings recorded during the second half of 2011. Sales amounted to € 276 million, down 9% versus Q1 2011 and down 23% compared to Q4 2011 due to lower volumes.

Mechanical sales were € 125 million in Q1 2012, down 12% versus Q1 2011 and down 33% sequentially. Bookings improved month-on-month, but not to the levels previously anticipated. Distributors have maintained their inventories at low levels; the uncertain end-user demand resulting in low visibility for the coming quarters. This environment is creating pricing pressure in the market.

Automotive sales, declined during Q1 to € 65 million due to lower sales of heavy vehicles in Brazil.

Construction and other sales were € 86 million in Q1, up 9% year-on-year, but 7% below the Q4 level. This segment includes sales of iron ore in Brazil, which saw a 15% decrease in contract prices in Q1. Iron ore contract prices for Q2 are down a further 10%.

For the full year 2012, non-Energy sales are expected to be down versus 2011, reflecting lower volumes and a challenging pricing environment both in Europe and Brazil, together with lower iron ore revenues.

RESULTS

Summary consolidated income statement

Comparison with Q4 2011 and Q1 2011

In € million	**Q1 2012**	**Q1 2011**	***Change YoY***	**Q4 2011**	***Change QoQ***
Sales	**1,199**	1,148	*+4%*	1,553	*-23%*
Cost of sales[1] (as % of sales)	**75.4%**	69.2%		73.1%	
SG&A costs[1] (as % of sales)	**12.0%**	12.7%		9.6%	
EBITDA	**152**	203	*-25%*	254	*-40%*
As % of sales	**12.7%**	17.7%		16.4%	
Net income, Group share	**29**	82	*-65%*	117	*-76%*

Sales in Q1 2012 rose by 4% year on year to € 1,199 million, reflecting marginally higher volumes (+1%), a slightly positive price/mix effect (+2%) and currency translation effect (+1%), together with a positive scope effect (+1%).

[1] Before depreciation and amortization

Compared to Q4 2011, which benefited from high shipments and some advanced deliveries, Q1 sales declined by 23%, reflecting lower volumes (-14%) and a less favourable price/mix effect (-11%), the currency translation and scope effect were slightly positive (+2% and +1% respectively).

The cost of sales in Q1 2012 represented 75.4% of sales versus 69.2% of sales in Q1 2011, reflecting for the most part higher start-up costs relating to new projects, negative currency effects and lower gross margin on raw material. The cost of sales ratio was also up versus Q4 2011 (73.1%) as the lower level of sales resulted in a lower absorption of fixed costs.

Sales, general and administrative costs (SG&A) were broadly stable year on year at 12.0% of sales.

EBITDA in Q1 2012 amounted to € 152 million, 12.7% of sales. The EBITDA margin was below that of Q1 2011 at 17.7% as a result of the higher cost of sales.

Depreciation of industrial assets amounted to € 55 million in Q1 2012, up 3% year-on-year, 7% above the previous quarter. Other amortization amounted to € 17 million.

Financial charges in Q1 2012 amounted to € 24 million versus € 7 million in Q1 2011 and € 12 million in Q4 2011, notably due to higher interest charges in line with the increase in net debt.

Income tax charges were equivalent to 31% of income before equity in earnings of affiliates, compared to 32% in Q1 2011 and 29% in Q4 2011.

Total net income was € 40 million in Q1 2012, down 57% year-on-year, down 70% sequentially. Net income, Group share totalled € 29 million, down 65% year-on-year, down 76% sequentially.

Cash flow

Operations generated gross cash flow of € 53 million in Q1 2012, compared to € 74 million in Q1 2011 and € 166 million in Q4 2011. Working capital increased by € 132 million during the quarter mainly due to higher inventories.

Capital expenditure amounted to € 140 million during the quarter, of which € 91.5 million related to strategic projects including VSB and the new mill in the USA. For the full year 2012, total capex is expected is amount to € 820 million.

Total cash outflow in Q1 2012 amounted to € 223 million, increasing net debt to € 1,416 million at 31 March 2012, compared to € 1,194 million at 31 December 2011. Net debt represented 27.1% of equity at 31 March 2012. There is expected to be a modest cash outflow in the remainder of the year which will increase net debt at the year end by about 15% from the level at the end of the first quarter.

Of the € 2,066 million of bank loans and other borrowings, 57% has a maturity in excess of one year, 44% has a maturity in excess of two years. The Group also maintains its undrawn confirmed credit lines of around €1.5 billion which include a revolving credit facility of € 1 billion due to mature in February 2016.

STRATEGIC PROJECTS

- **VSB in Brazil**

The production and sales of standard products has now started. The qualification process is progressing, but will take longer than previously anticipated, given the length and complexity of the production chain, from steel making to the complete finishing phases of the process. The focus for this year will be the integration of the various steps of the production chain, allowing the next phase of customer qualification for premium products to start in H2 of 2012. With a product mix progressively integrating more premium products, VSB will reach breakeven in the second half of 2013.

- **New mill in the USA**

The finalisation of the design of the new mill highlighted the fact that the capital expenditure had been significantly underestimated; resulting in the total capex for the rolling mill and the finishing lines increasing to $ 1,050 million. Due to the magnitude of the shale revolution, the market outlook for small diameter tubes in North America has improved since the project was started, confirming its strong profitability prospects.

The construction of the rolling mill is nearing completion. The first pipe will be rolled this autumn, three months behind the initial schedule, and the heat treatment lines are scheduled to come on line in the second quarter of 2013. As a result the Group expects the contribution to sales to be minimal in 2012. It is confident on a rapid technical and commercial ramp up of the plant in 2013 which should generate a significant positive EBITDA during the year. The operating environment in the USA remains very positive. In the run-up to the full operation of the new mill, demand for small diameter pipes will continue to be met through imports from the Group's European mills.

- **Contribution to EBITDA**

The overall impact of the delays of the Brazilian and US projects schedules is expected to increase the negative contribution to group EBITDA in 2012 to an estimated € 120 million.

OUTLOOK

The Group continues to benefit from the positive Oil & Gas environment; nevertheless it is impacted by the weak recovery of its other businesses, for which cost-saving measures are being implemented, a lower contribution from iron ore sales and the slower ramp up of the new projects. Sales growth for the full year is expected to be around 5%, with the EBITDA margin improving gradually to a full year margin of close to 15%.

The Group is confident that its strong market positions and premium products will enable it to take advantage of the market opportunities and leverage its new capacities.

ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting will take place at 2:30 pm on Thursday 31 May 2012 in Paris. The notice and agenda for the meeting, together with the Company's 2011 Registration Document can be downloaded from the Vallourec website: www.vallourec.com

DIVIDEND

The dividend of € 1.30 per share for the financial year 2011 will be proposed to the Annual Shareholders' Meeting. The record date for payment of the dividend is 4 June 2012 and the ex-date is 5 June 2012. From 5 to 19 June – the "option period" – shareholders may opt to receive the dividend payment in shares or in cash. The dividend will be paid on 27 June 2012.

ABOUT VALLOUREC

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

With over 22,000 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

CONFERENCE CALL TO DISCUSS Q1 2012 RESULTS

Thursday 10 May

- Analyst conference call at 6:30 pm (CET) to be held in English
  To participate in the call, please dial:
  0800 694 0257 (UK), 0805 632 056 (FR), 1866 966 9439 (USA),
  +44 1452 555 566 (other countries)
  Conference code: 73521763

- Replay will be available until 16 May 2012:
  0800 953 1533 (UK), 0805 111 337 (FR), 1866 247 4222 (USA),
  +44 1452 550 000 (other countries)
  Access code: 73521763#

Slides to accompany the results presentation will be available on the Group website www.vallourec.com

CALENDAR 2012

- 31 May: Shareholders' General Assembly
- 26 July: Release of Q2 and Half Year 2012 Results
- 7 November: Release of Q3 2012 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	2012	2011	2012 / 2011
Q1	**504.3**	**500.7**	**+0.7%**
Q2		**561.2**	
Q3		**600.8**	
Q4		**588.6**	
Total		**2,251.3**	

Summary consolidated income statement

VALLOUREC (in € million)	Q1 2012	Q1 2011	Change Q1'12 / Q1'11	Q4 2011	Change Q1'12 / Q4'11
Sales	**1,199.2**	1,147.8	*+4.5%*	1,552.5	*-22.8%*
Cost of sales[1]	**-904.6**	-794.5	*+13.9%*	-1,134.8	*-20.3%*
Selling, general and administrative costs[1]	**-143.9**	-145.9	*-1.4%*	-148.7	*-3.2%*
Other income (expense), net[1]	**1.6**	-4.0		-14.7	
EBITDA	**152.3**	203.4	*-25.1%*	254.3	*-40.1%*
EBITDA as % of sales	***12.7%***	*17.7%*		*16.4%*	
Depreciation of industrial assets	**-55.0**	-53.6	*+2.6%*	-51.2	*+7.4%*
Other (amortization, impairment & restructuring)	**-17.0**	-7.9		-6.7	
OPERATING INCOME	**80.3**	141.9	*-43.4%*	196.4	*-59.1%*
FINANCIAL INCOME	**-24.1**	-6.7	*+259.7%*	-12.1	*+99.2%*
INCOME BEFORE TAX	**56.2**	135.2	*-58.4%*	184.3	*-69.5%*
Income tax	**-17.3**	-44.1	*-60.8%*	-53.9	*-67.9%*
Net income of equity affiliates	**1.4**	1.6		2.9	
CONSOLIDATED NET INCOME	**40.3**	92.7	*-56.5%*	133.3	*-69.8%*
NET INCOME, GROUP SHARE	**28.6**	81.9	*-65.1%*	117.1	*-75.6%*

[1] Before depreciation and amortization

Summary consolidated balance sheet

VALLOUREC

(in € million)

	31/03/12	31/12/11		31/03/12	31/12/11
Intangible assets, net	258.3	277.0	Shareholders' equity [(1)]	4,833.6	4,830.3
Goodwill	506.4	519.8	Minority interests	386.5	380.0
Net tangible fixed assets	4,086.2	4,066.3	**Total equity**	**5,220.1**	**5,210.3**
Biological assets	202.8	184.3			
Investments in equity affiliates	145.2	146.7			
Other non-current assets	338.3	289.0			
Deferred tax assets	145.8	140.8	Bank loans and other borrowings	1,175.4	1,189.2
Total non-current assets	**5,683.0**	**5,623.9**	Employee benefits	114.6	116.7
			Deferred tax liabilities	209.9	198.8
			Other long-term liabilities	139.1	102.1
			Total non-current liabilities	**1,639.0**	**1,606.8**
Inventories and work-in-progress	1,464.0	1,388.9	Provisions	123.9	120.3
Trade and other receivables	1,016.5	1,057.9	Overdrafts and other short-term bank borrowings	890.4	906.2
Derivatives - assets	25.9	39.7	Trade payables	636.8	668.7
Other current assets	219.5	182.5	Derivatives-liabilities	45.4	115.7
Cash and cash equivalents	649.6	901.9	Other current liabilities	502.9	566.8
Total current assets	**3,375.5**	**3,570.9**	**Total current liabilities**	**2,199.4**	**2,377.7**
TOTAL ASSETS	9,058.5	9,194.8	TOTAL LIABILITIES	9,058.5	9,194.8

Net debt	1,416.2	1,193.5	[(1)] Net income, Group share	28.6	401.6

Summary consolidated cash flow statement

(in € million)	Q1'12	Q1'11	Q4'11
Gross cash flow from operations	**52.5**	73.7	166.2
Change in gross WCR [+ decrease, - increase]	**-131.5**	-240.2	+135.4
Operating cash flows	**-79.0**	-166.5	301.6
Gross capital expenditure	**-140.2**	-194.7	-293.0
Financial Investments	**-**	-	-147.8
Dividends paid	**-**	-7.1	-3.7
Asset disposals & other elements	**-3.5**	+24.7	+88.1
Change in net debt [+decrease, -increase]	**-222.7**	-343.6	-54.8