

Press Release

Vallourec reports Q3 2012 results

Boulogne-Billancourt, 7 November 2012 - Vallourec, world leader in premium tubular solutions, today announced its results for the third quarter of 2012. The consolidated financial statements were presented by Vallourec's Management Board to its Supervisory Board.

Key figures for Q3 2012:

- Sales flat versus Q2 2012 at € 1,334 million
- EBITDA of € 207 million, up 9% versus Q2 2012 at 15.5% of sales
- Net income, Group share of € 62 million, up 9% versus Q2 2012
- Margin improvement in line with full year objective

Summary of results for third quarter (Q3) and first nine months (9M) 2012

Comparison of Q3 2012 with Q2 2012 and Q3 2011; 9M 2012 with 9M 2011

<i>In € million</i>	Q3 2012	Q2 2012	Change QoQ	Q3 2011	Change YoY	9M 2012	9M 2011	Change YoY
Sales Volume (k tonnes)	525	528	-	601	-13%	1,557	1,663	-6%
Sales	1,334	1,328	-	1,306	+2%	3,861	3,743	+3%
EBITDA	207	191	+9%	228	-9%	550	685	-20%
As % of sales	15.5%	14.4%		17.4%		14.3%	18.3%	
Total net income	76	71	+6%	105	-27%	187	324	-42%
Net income, Group share	62	57	+9%	91	-32%	147	285	-48%

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

“Vallourec’s third quarter performance was in line with our expectations; our EBITDA margin increased slightly, confirming the progressive quarter-on-quarter improvement which we had indicated.

Activity has continued to benefit from growing Oil & Gas sales across all regions; this segment is up 19% year to date and now represents 60% of total sales. We experienced a good level of orders during the quarter, with strong demand for complex offshore operations and with several important tenders underway. In contrast, demand in industrial markets has remained subdued, with no improvement expected given a weak macro-economic environment. We continue to adapt the level of activity in our European mills and cost reduction measures are taking effect. Overall, the Group’s nine-month performance is consistent with our objective of an EBITDA margin close to 15% for the full year 2012.

Our strategic projects are advancing. The first pipes have been produced at our new plant in Youngstown, Ohio, whilst the qualification process at VSB in Brazil is advancing according to plan.”

SALES

In Q3 2012, sales volume of rolled tubes amounted to 525 thousand tonnes, in line with the previous quarter. For the first nine months, sales volume amounted to 1,557 thousand tonnes, down 6% compared to prior year primarily due to lower volumes in Europe.

Consolidated sales in Q3 2012 amounted to €1,334 million, stable compared to Q2 2012. For the nine months year to date, consolidated sales amounted to €3,861 million, up 3% year on year.

Sales by Market

Comparison of Q3 2012 with Q2 2012 and Q3 2011; 9M 2012 with 9M 2011

<i>In € million</i>	Q3 2012	Q2 2012	Change QoQ	Q3 2011	Change YoY	9M 2012	9M 2011	Change YoY
Oil & Gas	816	816	-	681	+20%	2,332	1,961	+19%
Power Generation	138	140	-1%	173	-20%	416	488	-15%
Petrochemicals	95	90	+6%	100	-5%	270	280	-4%
Total Energy	1,049	1,046	-	954	+10%	3,018	2,729	+11%
% of total sales	79%	79%		73%		78%	73%	
Mechanical	124	128	-3%	161	-23%	377	471	-20%
Automotive	57	60	-5%	96	-41%	182	276	-34%
Construction & Other	104	94	+11%	95	+9%	284	267	+6%
Total non-Energy	285	282	+1%	352	-19%	843	1,014	-17%
% of total sales	21%	21%		27%		22%	27%	
Total	1,334	1,328	-	1,306	+2%	3,861	3,743	+3%

Energy

Oil & Gas sales in Q3 2012 amounted to €816 million, stable sequentially. For 9M 2012 sales were up 19% year on year at €2,332 million, and now represent 60% of total sales compared to 52% of sales for the same prior year period.

In the USA, oil drilling remained broadly stable (-1%) at 1,410 active oil rigs, while gas drilling declined by 18%, reaching a low of 435 rigs, leading to a 6% decline in the total rig count. The Group recorded strong sales of premium OCTG in Q3 to support the high proportion of unconventional drilling (horizontal and directional drilling now represent over 70% of rigs). Furthermore, drilling activity in the Gulf of Mexico continued to drive demand for VAM premium connections. Thanks to its strong customer portfolio and unique product range, Vallourec was able to benefit from the ongoing shift in the market from unconventional gas to oil drilling. During Q3, sales in the USA benefitted from a good mix and from a price level allowing stable margins, despite the growing pricing pressure on oil service providers.

In the rest of the world, high oil prices continue to support growth in global exploration and production expenditure. The international rig count totalled 1,254 rigs at the end of September, up 6% since the start of the year. Oil & Gas sales remained at a high level in virtually all regions during Q3, mainly driven by sustained drilling activity in the North Sea, West Africa, the Middle East and Brazil. Sales included delivery of premium line pipes for offshore projects in India, together with further deliveries of VAM 21 connections in the Middle East. The level of bookings increased during the quarter, notably in the Middle East and Saudi Arabia, where Vallourec is qualifying its finishing mill for local manufacturing.

Power Generation sales in Q3 2012 amounted to €138 million, flat compared to the previous quarter. For 9M 2012 sales totalled €416 million, down 15% year on year.

Sales for conventional power plants improved sequentially due to an improved product mix. They included a number of new-build projects in India and the Far East, together with sales for maintenance in Europe. Sales will increase in Q4 as pipe orders previously scheduled for Q2 will be delivered before the end of the year.

Sales for nuclear power plants were low during Q3 as delivery of steam generator pipes is typically concentrated in the fourth quarter of each year. In China, which represents the largest market for new-build nuclear power plants, the State Council has recently approved the Nuclear Safety Plan and the Nuclear Power Development Plan, which will enable the approval process for new projects to resume.

Petrochemicals sales were €95 million in Q3 2012, up 6% sequentially. For 9M 2012 sales totalled €270 million, slightly below prior year (€280 million). Sales are largely concentrated in the Middle East, Asia and the USA, offsetting lower sales in Europe, where distributors continue to maintain their inventories at low levels.

Non-Energy

Non-Energy sales (**Mechanical, Automotive, Construction and others**) amounted to €285 million in Q3 2012, in line with the low level of quarterly sales level recorded since the start of the year. For the nine months year to date, non-Energy sales totalled €843 million (22% of total sales), down 17% compared to 9M 2011 (27% of total sales).

Sales continue to be impacted by the global economic weakness, particularly in Europe, but also in Brazil. Business confidence remains low and uncertainty weighs on the outlook. In

Europe, distributors of industrial products maintain their inventories at low levels and bookings in Q3 were below the previous quarter. In Brazil, non-energy sales were primarily impacted by the decline in the automotive market. Iron ore sales increased during Q3 due to higher volumes, whilst contract prices for the quarter were stable compared to Q2. In Q4 the contract prices will reflect the drop in iron ore spot prices experienced during the summer.

RESULTS

Summary consolidated income statement

Comparison of Q3 2012 with Q2 2012 and Q3 2011; 9M 2012 with 9M 2011

<i>In € million</i>	Q3 2012	Q2 2012	<i>Change QoQ</i>	Q3 2011	<i>Change YoY</i>	9M 2012	9M 2011	<i>Change YoY</i>
Sales Volume (k tonnes)	525	528	-	601	-13%	1,557	1,663	-6%
Sales	1,334	1,328	-	1,306	+2%	3,861	3,743	+3%
Cost of sales ¹ (as % of sales)	73.8%	73.7%		71.5%		74.3%	69.7%	
SG&A costs ¹ (as % of sales)	10.1%	11.4%		10.7%		11.1%	11.4%	
EBITDA	207	191	+9%	228	-9%	550	685	-20%
As % of sales	15.5%	14.4%		17.4%		14.3%	18.3%	
Net income, Group share	62	57	+9%	91	-32%	147	285	-48%

Q3 2012

Sales were stable quarter on quarter at €1,334 million, reflecting a slightly positive price/mix and currency translation effect and slightly lower sales volumes.

The cost of sales, at 73.8% of sales in Q3, was in line with the previous quarter (73.7%). Sales, general and administrative costs (SG&A) decreased to 10.1% of sales compared to 11.4% of sales in Q2, reflecting the accelerated cost reduction program. EBITDA improved in Q3 2012, up 9% sequentially to €207 million, representing 15.5% of sales.

The depreciation of industrial assets and other amortization was broadly stable during the quarter at €74 million. Financial charges of €23 million in Q3 2012 were in line with the previous quarter.

Income before tax amounted to €110 million. The effective tax rate was 30%. Total net income was €76 million in Q3 2012, up 6% versus Q2. Net income, Group share amounted to €62 million, up 9% sequentially.

9M 2012

For the nine months year to date, sales increased by 3% to € 3,861 million, driven by strong sales growth in Oil & Gas (+19%), offset by significantly lower sales in other activities (Power generation, Mechanical and Automotive). Overall the decline in sales volume (-6%) was offset by a positive price and mix effect (+7%), currency translation effect (+2%) and scope effect (+1%).

Year to date the cost of sales represented 74.3% versus 69.7% of sales for 9M 2011; the increase mainly reflects the ramp-up costs of the two new mills, lower volumes in Europe, and lower contribution from Brazil. SG&A totalled 11.1% of sales, slightly below the prior year level

¹ Before depreciation and amortization

(11.4%). The Group is reducing G&A costs while strengthening its commitments to R&D and commercial initiatives.

EBITDA for 9M 2012 amounted to €550 million, or 14.3% of sales. Net income, Group share amounted to €147 million.

Depreciation of industrial assets and other amortization totalled €218 million for 9M 2012, up 15% versus 9M 2011, reflecting the progressive ramp-up of new capacities. Financial charges amounted to €71 million versus €36 million for 9M 2011, in line with the evolution of net debt.

Income before tax amounted to €262 million. The effective tax rate was stable at 30%. Total net income amounted to €187 million. After minority interests of €40 million, Net income, Group share totalled €147 million, versus €285 million for 9M 2011.

Cash flow

Operating cash flow amounted to €157 million in Q3, while the working capital requirement was rose by €7 million. Year to date, Vallourec generated operating cash flow of €203 million.

Capital expenditure amounted to €153 million during the quarter, to reach €494 million year to date.

The Group generated a positive cash inflow during the quarter of €24 million, bringing the total cash outflow for the first nine months to €449 million. Net debt at the 30 September 2012 amounted to €1,643 million, representing 32.0% of equity.

At 30 September 2012, Vallourec has committed liquidity of €3.2 billion, which includes undrawn confirmed credit lines of €1.6 billion. Close to 70% of committed liquidity has a maturity in excess of 3 years (December 2015).

OUTLOOK

Given the current order book and the ongoing cost reduction initiatives, Vallourec maintains its objective of an EBITDA margin close to 15% for the full year 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 Depositary Receipt (ADR) program (ISIN code: US92023R2094, Ticker: VLOWY). The ratio of Vallourec ADR to ordinary shares is 5:1.

www.vallourec.com

PRESENTATION OF Q3 2012 RESULTS

Thursday 7 November

- 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: 42560767

A replay of the conference call is available until 13 November

To listen to the replay, please dial:
0800 953 1533 (UK), 0805 111 337 (FR), 1866 2474222 (USA)
+44 1452 550 000 (other countries)
Access code: 42560767#

Slides to accompany the Q3 2012 results are available on the website: www.vallourec.com

CALENDAR 2013

- 20 February 2013: Release of Q4 and Full Year 2012 Results
- 2 May 2013: Release of Q1 2013 Results
- 30 May 2013: Shareholders' General Assembly

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.

<i>In thousands of tonnes</i>	2012	2011	2012 / 2011
Q1	504.3	500.7	+0.7%
Q2	527.7	561.2	-6.0%
Q3	525.0	600.8	-12.6%
Q4		588.6	
Total		2,251.3	

Summary consolidated income statement

VALLOUREC (in € million)	Q3 2012	Q2 2012	Change Q3'12 / Q2'12	Q3 2011	Change Q3'12 / Q3'11
Sales	1,334.1	1,328.1	+0.5%	1,305.5	+2.2%
Cost of sales¹	-984.6	-978.9	+0.6%	-933.1	+5.5%
Selling, general and administrative costs¹	-134.4	-151.5	-11.3%	-139.3	-3.5%
Other income (expense), net	-7.7	-7.0		-5.4	
EBITDA	207.4	190.7	+8.7%	227.7	-8.9%
EBITDA as % of sales	15.5%	14.4%		17.4%	
Depreciation of industrial assets	-56.6	-54.8	+3.3%	-48.4	+16.9%
Other (amortization, impairment & restructuring)	-17.5	-17.1		-13.9	
OPERATING INCOME	133.3	118.8	+12.2%	165.4	-19.4%
FINANCIAL INCOME	-23.0	-23.5	-2.1%	-12.0	+91.7%
INCOME BEFORE TAX	110.3	95.3	+15.7%	153.4	-28.1%
Income tax	-33.2	-28.2	+17.7%	-48.3	-31.3%
Net income of equity affiliates	-1.3	4.2		-0.6	
CONSOLIDATED NET INCOME	75.8	71.3	+6.3%	104.5	-27.5%
Minority interests	-14.1	-14.7	-4.0%	-14.0	+0.7%
NET INCOME, GROUP SHARE	61.7	56.6	+9.0%	90.5	-31.8%

¹ Before depreciation and amortization

Summary consolidated income statement

(in € million)

VALLOUREC (in € million)	9M 2012	as a % of sales	9M 2011	as a % of sales	2012 / 2011
Sales	3,861.4		3,743.4		+3.2%
Cost of sales ¹	-2,868.1	74.3%	-2,609.9	69.7%	+9.9%
Selling, general and administrative costs ¹	-429.8	11.1%	-427.8	11.4%	+0.5%
Other income (expense), net	-13.1		-20.3		-35.5%
EBITDA	550.4	14.3%	685.4	18.3%	-19.7%
Depreciation of industrial assets	-166.4	4.3%	-149.3	4.0%	+11.5%
Other (amortization, impairment & restructuring)	-51.6		-39.3		+31.3%
OPERATING INCOME	332.4	8.6%	496.8	13.3%	-33.1%
FINANCIAL INCOME	-70.6		-36.4		94.0%
INCOME BEFORE TAX	261.8	6.8%	460.4	12.3%	-43.1%
Income tax	-78.7		-137.7		-42.8%
Net income of equity affiliates	4.3		0.8		
CONSOLIDATED NET INCOME	187.4	4.9%	323.5	8.6%	-42.1%
Minority interests	-40.5		-39.0		+3.8%
NET INCOME, GROUP SHARE	146.9		284.5		-48.4%

¹ Before depreciation and amortization

Summary consolidated balance sheet

VALLOUREC

(in € million)

	30/09/12	31/12/11		30/09/12	31/12/11
Intangible assets, net	237.9	277.0	Shareholders' equity ⁽¹⁾	4,714.2	4,830.3
Goodwill	520.1	519.8	Minority interests	414.2	380.0
Net tangible fixed assets	4,201.1	4,066.3	Total equity	5,128.4	5,210.3
Biological assets	192.9	184.3			
Investments in equity affiliates	148.1	146.7			
Other non-current assets	363.6	289.0			
Deferred tax assets	195.0	140.8	Bank loans and other borrowings	1,384.3	1,189.2
Total non-current assets	5,858.7	5,623.9	Employee benefits	110.5	116.7
			Deferred tax liabilities	239.3	198.8
			Other long-term liabilities	181.3	102.1
			Total non-current liabilities	1,915.4	1,606.8
Inventories and work-in-progress	1,555.4	1,388.9	Provisions	143.4	120.3
Trade and other receivables	983.2	1,057.9	Overdrafts and other short-term bank borrowings	1,209.3	906.2
Derivatives - assets	38.5	39.7	Trade payables	659.3	668.7
Other current assets	228.9	182.5	Derivatives-liabilities	37.4	115.7
Cash and cash equivalents	950.7	901.9	Other current liabilities	522.2	566.8
Total current assets	3,756.7	3,570.9	Total current liabilities	2,571.6	2,377.7
TOTAL ASSETS	9,615.4	9,194.8	TOTAL LIABILITIES	9,615.4	9,194.8
Net debt	1,642.9	1,193.5	⁽¹⁾ Net income, Group share	146.9	401.6

Information

Quarterly statements are unaudited.

Summary consolidated cash flow statement

(in € million)	Q3'12	Q2'12	Q3'11	9M'12	9M'11
Gross cash flow from operations	164.1	151.3	205.7	367.9	472.1
Change in gross WCR [+ decrease, - increase]	-7.0	-26.8	-173.4	-165.3	-472.8
Operating cash flows	157.1	124.5	32.3	202.6	-0.7
Gross capital expenditure	-152.8	-200.7	-227.5	-493.7	-616.1
Financial Investments	-	-	-	-	-75.3
Dividends paid	-6.9	-174.8	-84.0	-181.7	-101.8
Asset disposals & other elements	+26.5	0.4	19.8	+23.4	35.8
Change in net debt [+decrease, -increase]	+23.9	-250.6	-259.4	-449.4	-758.1