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Press Release

July 2013
www.vallourec.com

Vallourec reports second quarter and first half 2013 results

Boulogne-Billancourt, 30 July 2013 – Vallourec, world leader in premium tubular solutions, today announced its results for the second quarter and first half of 2013. The consolidated financial statements were presented by Vallourec's Management Board to its Supervisory Board.

Q2 2013:

- Sales up 3.7% versus Q2 2012 at € 1,377 million
- EBITDA of € 230 million, up 20.4% versus Q2 2012
- EBITDA margin improved by 230 bp to 16.7% of sales
- Net income, Group share of € 62 million, or € 0.5 per share

H1 2013:

- Sales of € 2,590 million, up 2.5% versus H1 2012
- EBITDA of € 421 million, up 22.7%
- EBITDA margin improved by 270 bp to 16.3% of sales
- Net income, Group share of € 97 million, or € 0.8 per share

Key figures for the second quarter and first half 2013

In € million	Q2 2013	Q2 2012	Change YoY	Q1 2013	Change QoQ	H1 2013	H1 2012	Change YoY
Sales Volume (k tonnes)	**543**	528	*+2.8%*	487	*+11.5%*	**1,030**	1,032	*-0.2%*
Sales	**1,377**	1,328	*+3.7%*	1,213	*+13.5%*	**2,590**	2,527	*+2.5%*
EBITDA	**230**	191	*+20.4%*	191	*+20.4%*	**421**	343	*+22.7%*
As % of sales	***16.7%***	*14.4%*	*+2.3pt*	*15.7%*	*+1pt*	***16.3%***	*13.6%*	*+2.7pt*
Operating income	**139**	119	*+16.8%*	90	*+54.4%*	**229**	199	*+15.1%*
Net income, Group share	**62**	57	*+8.8%*	35	*+77.1%*	**97**	85	*+14.1%*

Information

Half-year financial statements at 30 June 2012 and 30 June 2013 are subject to limited audit review.

Quarterly 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.

Summary of results

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

"Vallourec second quarter and first half results are in line with our expectations. The Group sales, EBITDA and EBITDA margin improved in Q2 2013, both year-on-year and sequentially. These performances were largely driven by the higher proportion of Oil & Gas sales in our total sales mix, representing 65% of H1 sales, and by the cost reductions implemented across the Group.

Despite the challenging environment in European industrial markets, Vallourec continued to benefit from its high premium offering and its strong market position to serve the shale hydrocarbons plays in the USA, the deep offshore market in Brazil and the dynamic market in the Middle East. Furthermore, the Group started to benefit from the progressive ramp-up of the new mills in accordance with plan.

The Group remains focused on enhancing its operating efficiency and, based on current market conditions, continues to target for 2013 an increase of volume and sales and an improvement of the EBITDA margin."

SALES VOLUME

In Q2 2013, sales volume of rolled tubes shipped amounted to 543 thousand tonnes, up 2.8% when compared to Q2 2012. This improvement was mainly driven by higher Oil & Gas volumes.

For H1 2013, sales volume amounted to 1,030 thousand tonnes, flat (-0.2%) compared to prior year.

CONSOLIDATED SALES BY MARKET

In € million	Q2 2013	Q2 2012	Change YoY	Q1 2013	Change QoQ	H1 2013	H1 2012	Change YoY
Oil & Gas	911	816	*+11.6%*	768	*+18.6%*	1,679	1,516	*+10.8%*
Power Generation	121	140	*-13.6%*	136	*-11.0%*	257	278	*-7.6%*
Petrochemicals	77	90	*-14.4%*	75	*+2.7%*	152	175	*-13.1%*
Total Energy	**1,109**	**1,046**	***+6.0%***	**979**	***+13.3%***	**2,088**	**1,969**	***+6.0%***
% of total sales	*80.5%*	*78.8%*		*80.7%*		*80.6%*	*77.9%*	
Mechanical	101	128	*-21.1%*	104	*-2.9%*	205	253	*-19.0%*
Automotive	66	60	*+10.0%*	54	*+22.2%*	120	125	*-4.0%*
Construction & Other	101	94	*+7.4%*	76	*+32.9%*	177	180	*-1.7%*
Total non-Energy	**268**	**282**	***-5.0%***	**234**	***+14.5%***	**502**	**558**	***-10.0%***
% of total sales	*19.5%*	*21.2%*		*19.3%*		*19.4%*	*22.1%*	
Total	**1,377**	**1,328**	***+3.7%***	**1,213**	***+13.5%***	**2,590**	**2,527**	***+2.5%***

Energy

Oil & Gas sales were up 11.6% in Q2 2013 versus the same period of the prior year, to reach € 911 million, i.e. 66% of total sales (vs. 61% in Q2 2012).
For H1 2013, Oil & Gas sales were up 10.8% year on year to € 1,679 million, representing 65% of total sales compared to 60% in H1 2012.

In the USA, the number of active rigs[1] during Q2 2013 averaged 1,761, flat since the beginning of the year, but still lower than the average of 1,970 active rigs in Q2 2012. However, the lower number of active rigs was partly offset by greater drilling efficiency. Prices were stable in Q2 2013 when compared to Q1 2013 but below 2012 level. Driven by the commercial success of its dedicated VAM® connections for shale applications, the Group continued to benefit from its strong market position on the shale oil market offsetting the still subdued shale gas market, which does not show signs of recovery yet as initially anticipated. The deliveries of the new plant in Youngstown (USA) have been gradually increasing since the beginning of the year. This resulted in higher Q2 Oil & Gas revenues vs. Q2 2012.
In H1 2013, Oil & Gas sales in the USA slightly decreased versus H1 2012, higher volumes being offset by lower prices.

In the rest of the world, the average rig count[2] increased by approximately 6% during Q2 2013 compared to Q2 2012, to reach 1,306 active rigs, with high levels of activity in most regions.
In the Middle East, Vallourec revenues improved especially as the Group benefited from a good product mix such as in Saudi Arabia. The ongoing qualification of VSB for premium products is running on schedule, which will allow the plant to gradually increase its premium products output to fulfill orders notably from Africa and the Middle East.
In Brazil, Vallourec continued to benefit from a good mix driven by the domestic Oil & Gas offshore market. In order to further deepen its long-term collaboration with Petrobras, and supply the Brazilian market with the most advanced products, Vallourec inaugurated, in July 2013, a new Research Center in the State of Rio de Janeiro, located next to Petrobras' CENPES research center.
In H1 2013, Oil & Gas sales in the rest of the world were up when compared to the same period of the prior year, notably in Brazil, driven by a product mix more biased toward offshore applications.

Power generation sales amounted to € 121 million in Q2 2013, down 13.6% versus Q2 2012 and represented 9% of total consolidated sales in Q2 2013.
For H1 2013, power generation sales amounted to € 257 million, down 7.6% year on year, representing 10% of total consolidated sales.
The conventional power generation market remained weak. Local competition continued to be intense in Asia where most new-build activity is concentrated. Sales for nuclear power plants are affected by the rescheduling of some projects over 2014. For full year 2013, the Group is not expecting any improvement for the power generation market.

Petrochemicals sales were € 77 million in Q2 2013, down 14.4% year on year.
For H1 2013, petrochemicals sales amounted to € 152 million, down 13.1% year on year and represented 6% of total consolidated sales, in a very competitive environment.

[1] Baker Hughes (USA rig count) - end of June 2013
[2] Baker Hughes (International rig count = outside North America) - end of June 2013

Non-energy

Non-energy sales amounted to € 268 million in Q2 2013, down 5.0% when compared to Q2 2012. Non-energy sales represented 19% of total consolidated sales in Q2 2013 (vs. 21% in Q2 2012).
For H1 2013, non-energy sales amounted to € 502 million, down 10.0% year on year, representing 19% of total sales compared to 22% in H1 2012.

In Europe, the non-energy sales decreased versus 2012 due to lower average selling prices and a high reference base in 2012. End-user demand for pipes dedicated to the mechanical use was affected in particular by a weaker mining sector. The construction and automotive markets also remained weak with the exception of the agricultural business which is performing well. In addition, prices remained under pressure.

In Brazil, the Group's non-energy sales benefited from a rebound in the automotive market showing an improvement in Q2 2013 when compared to Q2 2012. In Q2 2013, iron ore sales were up compared to Q1, due to higher contract prices, and up year on year. Iron ore contract prices are expected to be down in H2 2013.

RESULTS

Summary consolidated income statement

In € million	Q2 2013	Q2 2012	Change YoY	Q1 2013	Change QoQ	H1 2013	H1 2012	Change YoY
Sales Volume (k tonnes)	**543**	**528**	***+2.8%***	**487**	***+11.5%***	**1,030**	**1,032**	***-0.2%***
Sales	**1,377**	**1,328**	***+3.7%***	**1,213**	***+13.5%***	**2,590**	**2,527**	***+2.5%***
Cost of sales[1]	-991	-979	*+1.2%*	-886	*+11.9%*	-1,877	-1,884	*-0.4%*
(as % of sales)	*72.0%*	*73.7%*	*-1.7pt*	*73.0%*	*-1pt*	*72.5%*	*74.5%*	*-2pt*
SG&A costs[1]	-140	-151	*-7.3%*	-132	*+6.1%*	-272	-295	*-7.8%*
(as % of sales)	*-10.2%*	*-11.4%*	*-1.2pt*	*-10.9%*	*-0.7pt*	*-10.5%*	*-11.7%*	*-1.2pt*
EBITDA	**230**	**191**	***+20.4%***	**191**	***+20.4%***	**421**	**343**	***+22.7%***
As % of sales	*16.7%*	*14.4%*	*+2.3pt*	*15.7%*	*+1pt*	*16.3%*	*13.6%*	*+2.7pt*
Operating income	**139**	**119**	***+16.8%***	**90**	***+54.4%***	**229**	**199**	***+15.1%***
Net income, Group share	**62**	**57**	***+8.8%***	**35**	***+77.1%***	**97**	**85**	***+14.1%***

(1) *Before depreciation and amortization*

Analysis of Q2 2013 Results

Sales increased by 3.7% versus Q2 2012 to € 1,377 million, mainly reflecting a positive mix effect driven by a higher proportion of Oil & Gas sales, while the positive volume effect (+2.8%) was offset by a negative currency translation effect (-3%).
The cost of sales, at 72.0% of sales in Q2, improved compared to Q2 2012 (73.7% of sales) particularly as a result of a better mix.
Sales, general and administrative costs (SG&A) amounted to € 140 million, and decreased in value and as a percentage of sales at 10.2%.
The EBITDA for Q2 was up € 39 million, or 20.4% year-on-year to € 230 million. EBITDA margin improved by 230 bp to 16.7% of sales (vs. 14.4% of sales in Q2 2012) despite lower OCTG prices in the USA, as a result of higher Oil & Gas sales and efficient cost control.

Analysis of First Half of 2013 Results

Consolidated sales in H1 2013 amounted to € 2,590 million, up 2.5% when compared to H1 2012, reflecting stable volumes and a positive mix effect, which were partly offset by lower OCTG prices in the USA and a negative currency translation effect (-3.3%).

The cost of sales amounted to € 1,877 million or 72.5% of sales in H1 2013, representing an improvement compared to H1 2012 (74.5% of sales). This improvement was mainly due to a better mix with a higher proportion of Oil & Gas sales and continued cost reductions.
The sales, general and administrative costs (SG&A) were down in value and as a percentage of sales at 10.5% to reach € 272 million, thanks to lower commercial and administrative costs as well as a reduction of R&D expenses due to the completion of certain projects.

The EBITDA in H1 2013 totalled € 421 million, up 22.7% year on year. Compared to H1 2012, the EBITDA margin improved by 270 bp to 16.3% of sales. The Group profitability improved largely due to a better sales mix, an efficient cost control, the continuing ramp-up of the new mills and better exchange rates on hedged transactions.

Operating income amounted to € 229 million in H1 2013, 15.1% above the prior year level. Better EBITDA was partly offset by the increase of depreciation and amortization, due to recent capital expenditures. Exceptional items include the provision of € 20.6 million which was accrued in Q1 2013 for the fraud on international transfers suffered by a subsidiary of Vallourec.

Net income, Group share amounted to € 97 million, 14.1% above prior year. The impact on interest charges from a higher net debt has been almost fully offset by a lower average cost of debt. The effective tax rate reached 35.7% over the period.

Earnings per share amounted to € 0.8 in H1 2013 compared to € 0.7 in H1 2012.

Cash flow

In € million	Q2 2013	Q2 2012 restated[1]	Q1 2013	H1 2013	H1 2012 restated[1]
Cash flow from operating activities	+170	+151	+130	+300	+204
Change in gross WCR [+ decrease, - increase]	-71	-27	-131	-202	-158
Operating cash flows	**+99**	**+124**	**-1**	**+98**	**+46**
Gross capital expenditure	-100	-200	-98	-198	-341
Financial Investments	-	-	-		-
Dividends paid	-52	-175	-	-52	-175
Asset disposals & other elements	+34		-22	+12	-3
Change in net debt [+decrease, -increase]	**-19**	**-251**	**-121**	**-140**	**-473**
Net debt (end of period)	1,754	1,667	1,735	1,754	1,667

(1) *Figures for the year 2012 have been restated with the impact of the change in method of accounting for actuarial gains and losses on employee benefits (revised standard IAS 19)*

Cash flow from operating activities amounted to € 300 million in H1 2013 compared to € 204 million in H1 2012. This improvement was largely due to the improved EBITDA.
Over the period, gross working capital requirements increased by € 202 million reflecting notably the ramping up of new mills.
Gross capital expenditure for H1 2013 was € 198 million, down € 143 million year on year. Capex for the full year 2013 is still expected to be around € 650 million including less than € 200 million for the completion of the finishing lines of the new mill in Youngstown (USA).

In June 2013, the payment of the dividend in shares resulted in the creation of 1,338,791 new shares issued at a price of € 36.69 per share (i.e. a share capital increase of 1.07%). Furthermore, the cash outflow for the payment of the dividend by the Holding company to its shareholders' amounted to € 36.5 million.

As a result, during H1 2013, net debt increased by € 140 million to reach € 1,754 million as of June 30 2013, representing 34.6% of consolidated equity (€ 5,075 million). Net debt is expected to be slightly up at the end of 2013. As of June 30 2013, Vallourec had close to € 3 billion of committed financings, which included undrawn confirmed credit lines of € 1.6 billion.

OUTLOOK

The indicators for Vallourec's Oil & Gas markets remain globally positive due to Brazil and dynamism of the rest of the world, despite no recovery of the US gas drilling activity. The economic environment continues to be challenging for other markets, with limited visibility.
Based on these conditions and thanks to the progressive ramp up of the new mills, the Group continues to target growth in volumes, sales and improvement in EBITDA margin in 2013.

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, 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 the NYSE 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 CAC 40.

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 and H1 2013 results

Tuesday 30 July

- 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 (France),
  1 866 966 9439 (USA), +44 1452 555 566 (other countries)
  Conference code: 16089115
- Slides will be available on the website at:
  http://www.vallourec.com/en/finance/investor-relations/
- A replay of the conference call will be available until 13 August 2013.
  To listen to the replay, please dial:
  0800 953 1533 (UK), 0805 111 337 (France),
  1 866 247 4222 (USA), +44 1452 550 000 (other countries)
  Access code: 16089115

Calendar

09/26 & 09/27/2013	Investor day Pittsburgh - USA (register now)
11/07/2013	Release of third quarter 2013 results

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Information

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Quarterly 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.

Appendices

Documents accompanying this release:

- Sales volume (k tonnes)
- Sales by geographic region
- Summary consolidated income statement
- Summary consolidated balance sheet

Sales volume

In thousands of tonnes	2013	2012	Change YoY
Q1	487	504	*-3.4%*
Q2	543	528	*+2.8%*
Q3		525	
Q4		535	
Total		**2,092**	

Sales by geographic region

In € million	H1 2013	*As % of sales*	H1 2012	*As % of sales*	Change YoY
Europe	511	*19.7%*	594	*23.5%*	*-14.0%*
North America	686	*26.5%*	704	*27.9%*	*-2.6%*
South America	608	*23.5%*	626	*24.8%*	*-2.9%*
Asia & Middle East	614	*23.7%*	400	*15.8%*	*+53.5%*
Rest of World	171	*6.6%*	203	*8.0%*	*-15.8%*
Total	**2,590**	***100.0%***	**2,527**	***100.0%***	***2.5%***

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Summary consolidated income statement

VALLOUREC *In € million*	Q2 2013	Q2 2012 restated[1]	Change YoY	Q1 2013	Change QoQ	H1 2013	H1 2012 restated[1]	Change YoY
Sales	**1,377**	1,328	***+3.7%***	1,213	***+13.5%***	**2,590**	2,527	***+2.5%***
Cost of sales[2]	**-991**	-979	*+1.2%*	-886	*+11.9%*	**-1,877**	-1,884	*-0.4%*
SG&A costs[2]	**-140**	-151	*-7.3%*	-132	*+6.1%*	**-272**	-295	*-7.8%*
Other income (expense), net	**-16**	-7		-4		**-20**	-5	
EBITDA	**230**	191	***+20.4%***	191	***+20.4%***	**421**	343	***+22.7%***
EBITDA as % of sales	*16.7%*	*14.4%*		*15.7%*		*16.3%*	*13.6%*	
Depreciation of industrial assets	**-72**	-55	*+30.9%*	-64	*+12.5%*	**-136**	-110	*+23.6%*
Other (amortization, exceptional items, impairment & restructuring)	**-19**	-17		-37		**-56**	-34	
OPERATING INCOME	**139**	119	***+16.8%***	90	***+54.4%***	**229**	199	***+15.1%***
Financial income	**-22**	-24	*-8.3%*	-28	*-21.4%*	**-50**	-48	*+4.2%*
INCOME BEFORE TAX	**117**	95	***+23.2%***	62	***+88.7%***	**179**	151	***+18.5%***
Income tax	**-42**	-28		-22		**-64**	-45	
Net income of equity affiliates	**-3**	4		4		**1**	6	
CONSOLIDATED NET INCOME	**72**	71	***+1.4%***	44	***+63.6%***	**116**	111	***+4.5%***
Minority interests	**-10**	-14		-9		**-19**	-26	
NET INCOME, GROUP SHARE	**62**	57	***+8.8%***	35	***+77.1%***	**97**	85	***+14.1%***
EARNING PER SHARE (in €)	**0.5**	0.5		0.3		**0.8**	0.7	

(1) *Figures for the year 2012 have been restated with the impact of the change in method of accounting for actuarial gains and losses on employee benefits (revised standard IAS 19)*
(2) *Before depreciation and amortization*

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Summary consolidated balance sheet

VALLOUREC *In € million*					
Assets	**30-Jun 2013**	**31-Dec 2012 restated[1]**	**Liabilities**	**30-Jun 2013**	**31-Dec 2012 restated[1]**
			Shareholders' equity	**4,660**	4,729
Intangible assets, net	**235**	224	Minority interests	**415**	415
Goodwill	**515**	511	**Total equity**	**5,075**	**5,144**
Net tangible fixed assets	**4,229**	4,320			
Biological assets	**187**	196	Bank loans and other borrowings	**1,403**	1,410
Investments in equity affiliates	**163**	162	Employee benefits	**211**	215
Other non-current assets	**446**	408	Deferred tax liabilities	**144**	190
Deferred tax assets	**182**	213	Other long-term liabilities	**224**	210
Total non-current assets	**5,957**	**6,034**	**Total non-current liabilities**	**1,982**	**2,025**
Inventories and work-in-progress	**1,579**	1,430	Provisions	**159**	153
Trade and other receivables	**1,028**	969	Overdrafts and other short-term bank borrowings	**1,195**	750
Derivatives - assets	**21**	59	Trade payables	**761**	678
Other current assets	**296**	203	Derivatives - liabilities	**30**	15
Cash and cash equivalents	**844**	546	Other current liabilities	**523**	476
Total current assets	**3,768**	**3,207**	**Total current liabilities**	**2,668**	**2,072**
TOTAL ASSETS	**9,725**	**9,241**	**TOTAL LIABILITIES**	**9,725**	**9,241**
Net debt	**1,754**	**1,614**	**Net income, Group share**	**97**	**217**

(1) *Figures for the year 2012 have been restated with the impact of the change in method of accounting for actuarial gains and losses on employee benefits (revised standard IAS 19)*

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