Press release

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Major strategic initiatives accelerate Vallourec's transformation and reinforce its balance sheet

- **Project[1] to enhance Vallourec's Global Industrial Set-up**
  - Downsizing European capacity by 50%, focusing on high value and specialized activities[2]
  - Enhancing global competiveness through the creation of two world class highly competitive production hubs in Brazil[3] and China[4] thanks to the merger of Vallourec & Sumitomo Tubos do Brasil and Vallourec Tubos do Brasil and the acquisition of Tianda Oil Pipe
  - Targeting around €750 million additional EBITDA contribution by 2020 thanks to these measures
  - Most measures implemented by end 2017

- **Reinforcing R&D and industrial cooperation with long-term partner NSSMC**

- **Strengthening balance sheet through €1.0bn of new equity, supported by Bpifrance and NSSMC**
  - Issuance through a mix of reserved equity instrument and rights issue (in a mid-point scenario, respectively c. €490m and €510m, of which c. €445m to be subscribed by the market)
  - Main tranche of the reserved equity instrument priced at €11 per share
  - Bpifrance and NSSMC to increase their stake in Vallourec's share capital to 15% each
  - Subscription commitment from Bpifrance and NSSMC representing approximately half or more of equity raised in all scenarios

- **Looking beyond the trough: 2020 targets**
  - EBITDA of €1.2-1.4bn
  - Normalized Free Cash Flow of €500-600m
  - Net Debt/EBITDA < 1.0x
  - Investment Grade rating
  - ROCE above WACC

1 The implementation of the project is subject to prior consultation with relevant workers council
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3 Subject to competition authorities' approval
4 Subject to relevant PRC authorities approval (including Competition authorities)

Boulogne-Billancourt (France), 1 February 2016 – Vallourec, world leader in premium tubular solutions, announces today major strategic initiatives aiming at transforming its operational set-up, improving its competitiveness in the short and longer term and reinforcing its financial strength to secure long-term profitable growth and sustained shareholder value creation.

Commenting on these major initiatives, Philippe Crouzet, Chairman of the Management Board, said:

"Since the beginning of the downturn, we have undertaken important measures to adapt both in the short term and structurally. Today, we announce a comprehensive set of major strategic initiatives, which reshape Vallourec for long term profitable growth.
Our plan significantly adjusts our industrial footprint in Europe, to address overcapacity and focus on highly specialized activities in France and Germany. It rationalizes and optimizes our Brazilian operations. It gives us access to a second, highly competitive production hub in Tianda Oil Pipe.
I am conscious of the impact of those measures on our employees. They are necessary if we want to position Vallourec as a strong and sustainable company, able to successfully compete over the years.
In this context, the commitment of Bpifrance and NSSMC as anchor investors is a key support to Vallourec's strategy, while ensuring its independence, and I am convinced that our long term R&D cooperation with NSSMC will enhance the technical leadership of our VAM® connections.
Through these decisive actions, we fully demonstrate our confidence in the long-term prospects of our business and our determination to maintain and develop Vallourec's position as a leader in premium tubular solutions, for the benefit of our customers, employees and shareholders."

I. Project[5] to enhance Vallourec Global Industrial Set up

Europe

Vallourec's European operations which suffer from global overcapacity and low cost competition will be rationalized to centralize rolling activities in Germany and finishing activities in France.

This rationalization project will lead to the closure of two rolling mills (Saint-Saulve and Deville in France), one threading line (Mülheim in Germany) as well as one heat treatment line (Bellshill in Scotland), resulting in a 50% cut in tube production capacity by 2017 versus 2014 level. It will result in approximately 1,000 FTE's reduction in addition to the Valens plan.

In line with its premium positioning, Vallourec will focus Europe on the production and design of high value added products and solutions and will continue to place a strong emphasis on Research & Development activities in France and Germany.

Vallourec's overcapacity in steel production will be fixed through the planned sale of a majority interest in the Saint-Saulve French steel mill.

The revised industrial footprint will be fully operational by the end of 2017.

The implementation of these measures is subject to consultation of the work's councils.

Furthermore, Vallourec announces it has entered into exclusive negotiations in view of the disposal of Vallourec Heat Exchanger Tubes, a subsidiary specialized in welded stainless steel and titanium tubes with assets in France, India, USA, China and Korea.

Brazil

Vallourec is rationalizing its Brazilian operations through the merger[6] of Vallourec & Sumitomo Tubos do Brasil (VSB, Jeceaba site, operated by Vallourec and NSSMC in a 56/40.4% joint operation, with Sumitomo Corp. holding the remaining 3.6%) and Vallourec Tubos do Brasil (VBR, fully owned by Vallourec) into a single new entity to be called Vallourec Soluções Tubulares do Brasil in which Vallourec will hold a majority stake of 84.6% stake, NSSMC 15% and Sumitomo Corp. 0.4%. NSSMC will keep its supply agreement for 300kt to be manufactured in the Jeceaba plant.

5 The implementation of the project is subject to prior consultation with relevant workers council
6 Subject to competition authorities' approval

By creating a single production hub, Vallourec will generate significant industrial synergies, capex avoidance, as well as administrative and tax synergies while resulting in the full consolidation of VSB debt of approximately €200 million.

The rationalization of Brazilian operations will lead to the closure of two blast furnaces and one steel mill over 2016 – 2018, to concentrate all steel production in Jeceaba's state-of-the-art facility.

The new entity, which does not include the mine and eucalyptus plantations assets, will also fully benefit from the optimal operational performance reached by VSB's state-of-the-art PQF® mill and premium finishing facilities, and from the support of the BRL/USD parity, making it a highly competitive export route.

China

Since 2011, Vallourec has owned a 19.46% stake in Tianda Oil Pipe (TOP), a Chinese seamless pipe manufacturer listed on the Hong Kong Stock Exchange. On 29 January 2016 Vallourec and TOP signed a conditional sale and purchase agreement whereby Vallourec would acquire a further 50.61% stake. Following completion of this transaction[7], Vallourec will hold a 70.07% controlling interest in TOP and shall subsequently launch a Mandatory General Offer to acquire all remaining shares, as required by the Hong Kong Code on Takeovers and Mergers. The total maximum cash out would be USD175m. Trading in TOP is suspended pending validation of the full announcement by Hong Kong authorities.

TOP's industrial assets comprise a state-of-the-art PQF® seamless rolling mill with 500kt capacity, qualified by tier one OCTG end-users. Building on a successful five-year cooperation with TOP, this acquisition will enable Vallourec to develop an enlarged highly competitive offer combining VAM® connections with Tianda low cost pipes, thereby supporting VAM®'s market share.

Benefits and costs of the industrial optimisation

The plan is expected to generate additional EBITDA contribution of around €750m arising from:

- New competitiveness plan which will include initially identified savings as part of Valens 2015 as well as additional savings from Europe and Brazil – Total gross savings of around €400m.
  - This figure is on top of the c.€100m of benefits from Valens achieved in 2015.
- Optimisation of the industrial footprint with utilisation of new highly competitive production hubs, with production costs lower by 30%-40% compared with previous routes – Total benefits of around €250m (in 2020).
- Consolidation of Tianda and VSB – Total Benefits of around €100m (in 2020).
- Most measures implemented by end 2017.

Cost for achieving the above plan will include:

- The restructuring costs associated to the additional European measures, evaluated at €76m and to be provisioned in Q1 2016.
- Impairment charges related to the European restructuring project, amounting to €61m and to be accounted for in Q1 2016.

II. Reinforcing Vallourec's partnership with NSSMC

Since 1985, VAM® connection development is a joint effort between Vallourec and NSSMC. This cooperation has made the VAM® brand the world's reference in the OCTG industry.

The partnership will be reinforced with the ambition of continuing to leverage on each company competences to secure VAM® competitiveness and worldwide technical leadership in the long term in three respects:

7 Subject to relevant PRC authorities' approval (including Competition authorities)

- Improve efficiency of the R&D cooperation to accelerate the development and the release of new VAM® connections in order to strengthen VAM®'s worldwide premium positioning.
- Secondly, reinforce the Brazilian set-up through the contemplated merger of the companies' existing operations.
- Finally, NSSMC will subscribe to Vallourec's equity issuance, acting as anchor investor.

III. Strengthening Vallourec's Balance Sheet

Capital increase

Vallourec intends to raise €1.0 billion of new equity to strengthen its balance sheet and finance its transformation to secure long term growth through a combination of an equity instrument (Mandatory Convertible Bond) reserved to Bpifrance and NSSMC and a rights issue.

The mandatory convertible bond will be subscribed by Bpifrance and NSSMC up to an amount which will allow them to reach a 15% ownership post completion of the equity issuance and conversion on a fully diluted basis.

- Mandatory conversion of the bond into ordinary shares will take place at the earliest of competition authorities' approvals and maturity date of the instrument (24 months after the issue date).
- Issuance of the mandatory convertible bond will be subject to the successful execution of the rights issue.
- The mandatory convertible bond has been structured in order to receive 100% equity credit.

NSSMC will increase its stake entirely through the subscription to the Mandatory Convertible Bond, while Bpifrance reserves the right to acquire shares in the market prior to the rights issue. As a consequence, the size of the subscription of Bpifrance in the Mandatory Convertible Bond will vary according to the amount of shares which Bpifrance will decide to purchase before the Shareholders' Meeting.

In a mid-point scenario the equity issuance will be structured as follows:

- Rights issue of approximately €510m:
  - Bpifrance and NSSMC have committed to subscribe to the offering through the exercise of the preferential subscription rights allocated to them;
  - the remainder, approximately €445m, will be subscribed by the market.
- Mandatory Convertible Bond of approximately €490m, including:
  - approximately €365m tranche convertible into shares at a conversion price of €11 per share representing a premium of c.44% over last 3 months VWAP; and
  - approximately €125m tranche convertible into shares at the rights issue subscription price.

Depending on the number of shares eventually acquired by Bpifrance on the market, the size of the rights issue to be subscribed by the market may vary, up to +/- approximately €90m.

In all cases, Bpifrance and NSSMC subscription commitment will represent approximately half or more of the total equity issuance.

The closing of the rights issue will take place concurrently with the completion of the mandatory convertible bond issue. The equity issuance will be implemented in Q2 2016, subject to Vallourec shareholders' approval and market conditions.

An Ordinary and Extraordinary Shareholders' Meeting will be convened on 6 April 2016 to submit the equity issuance for shareholders' approval.

Goldman Sachs International and Société Générale Corporate & Investment Banking have been mandated by the Company to act as Joint Global Coordinators and Joint Bookrunners on its intended rights issue.

Governance

Subject to certain exceptions, both Bpifrance and NSSMC will be subject to a standstill at 15% in voting rights for a period of 15 years.

During such period, sales of Vallourec shares or bonds by Bpifrance or NSSMC will be subject to orderly disposal requirements.

Subject to certain exceptions, both Bpifrance and NSSMC will be subject to a lock-up on their entire 15% interest in Vallourec for a period of 12 months starting, for Bpifrance, from the date of the Shareholders' Meeting to be held on 6 April 2016 and, for NSSMC, from the date of conversion of the Mandatory Convertible Bonds into ordinary shares.

A resolution will be presented at the 2016 Ordinary and Extraordinary Shareholders' Meeting in order for Bpifrance to have a Supervisory Board member.

A resolution will be presented at the first Ordinary and Extraordinary Shareholders' Meeting following the conversion of the Mandatory Convertible Bond into ordinary shares in order for NSSMC to have a Supervisory Board member, which will be subject to ring-fencing measures to prevent the exchange of any competitively sensitive information.

IV. Looking beyond the trough : 2020 targets

The combination of the above actions is expected to enable Vallourec to address short term challenges as well as to be uniquely positioned to fully benefit from any recovery in the oil & gas market:

- Operational leverage allowing to fully benefit from volume recovery – 2020 EBITDA impact of approximately €900m assuming 2020 volumes comparable to 2014;
- Strategic initiatives adding approximately €750 million of additional EBITDA contribution by 2020, with most measures fully implemented by the end of 2017;
- Rebalancing of production footprint allowing for enhanced competitiveness;
- Securing VAM® competitiveness and success in the long-term;
- Addressing any potential balance sheet risk (both in terms of liquidity and covenants).

This new configuration will drive Vallourec's return to solid profitability and cash generation. By 2020, assuming volumes comparable to 2014, the company expects to reach:

- EBITDA of €1.2-1.4bn
- Normalized Free Cash Flow of €500-€600m assuming €350m annual capex
- Net Debt/EBITDA < 1.0x
- Investment Grade rating
- ROCE above WACC

V. 2015 and 2016 guidances

Vallourec confirms its 2015 guidance regarding the generation of positive free cash flow and that4Q-15 EBITDA will be below 3Q-2015. 2015 year end net debt will be slightly lower than 2014 year end level. Vallourec's 2015 full year results will be released on 18 February 2016.

In 2016, based on current market conditions and currency trends, Vallourec targets the generation of a negative free cash flow of around €-600m (assuming same working capital level as end of 2015) and a negative EBITDA.
Net debt would accordingly not exceed €1.5 billion at end of 2016, after taking into account the completion of Tianda Oil Pipe acquisition, the creation of Vallourec Soluções Tubulares do Brasil and the €1 billion capital increase.

VI. Conditions and timetable considerations

The subscription by Bpifrance and NSSMC to their pro-rata share of the rights offering and to the Mandatory Convertible Bonds are subject to the vote of the necessary resolutions by the Shareholders' Meeting of Vallourec and the completion of the rights offering. The conversion of the Mandatory Convertible Bonds into Vallourec shares will be subject to applicable competition authorities' clearances or exceptions thereof.

It is anticipated that the necessary resolutions will be presented for the vote of the shareholders of Vallourec at the annual Ordinary and Extraordinary Shareholders' Meeting to be held on 6 April 2016 and that the rights offering will be launched thereafter subject to market conditions.
Goldman Sachs International, Rothschild and Société Générale Corporate & Investment Banking are acting as financial advisors of the Company.

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 in 2015, 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 Euronext in Paris (ISIN code: FR0000120354, Ticker VK) and eligible for the Deferred Settlement System (SRD), Vallourec is included in the following indices: Euronext 100 and SBF 120.

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- **Conference call / audio webcast on Monday 1 February 2016 at 10:00 am (Paris time) to be held in English.**
- To connect to the audio webcast: http://edge.media-server.com/m/s/i5drk4ri/lan/en
- To participate in the call, please dial: +44 20 3427 1900 (UK), +33 1 76 77 22 21 (France), +1 646 254 3367 (USA),
  Conference code: 9946976
- A replay of the audio webcast will be available at : http://edge.media-server.com/m/s/i5drk4ri/p/5zp5x7t5/lan/en
- The audio webcast and slides will also be available on the website at: http://www.vallourec.com/EN/GROUP/FINANCE

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European Economic Area

This press release does not constitute a prospectus within the meaning of Directive 2003/71/EC as amended to the extent that such amendments have been implemented in the Member States of the European Economic Area (the "Prospectus Directive").

The rights issue will be open to the public in France only pursuant to a prospectus having received the visa of the French Autorité des marchés financiers (the "AMF") and prepared in accordance with the Prospectus Directive.

With respect to each Member State of the European Economic Area other than France which has implemented the Prospectus Directive (the "Member State"), no action has been undertaken or will be undertaken to make an offer to the public of securities requiring a publication of a prospectus in any Member State. As a result, the securities of Vallourec may only be offered in the Member States (i) to qualified investors, as defined by the Prospectus Directive; or (ii) in any other circumstances, not requiring Vallourec to publish a prospectus as provided under Article 3(2) of the Prospectus Directive.

For the purposes of this paragraph, "securities offered to the public" in a given Member State, means, any communication in any form and by any means, of sufficient information about the terms and conditions of the offer and the securities, so as to enable an investor to decide to buy or subscribe for the securities, as the same may be varied in that Member State.

This selling restriction applies in addition to any other selling restrictions which may be applicable in the Member States who have implemented the Prospectus Directive.

United Kingdom

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Forward-looking statements

This press release includes information about the objectives of the Group and forward-looking statements. These statements are sometimes identified by the use of the future or conditional tense, as well as terms such as "estimate", "believe", "have the objective of", "intend to", "expect", "result in", "should" and other similar expressions. It should be noted that the realisation of these objectives and forward-looking statements is dependent on the circumstances and facts that arise in the future. Forward-looking statements and information about objectives may be affected by known and unknown risks, uncertainties and other factors that may significantly alter the future results, performance and accomplishments planned or expected by the Company. These factors may include changes in the economic and commercial situation, regulations and the risk factors described in Vallourec's Registration Document (pages 112 to 122) filed with the AMF under number D.15-0315 on April 10, 2015.

Calendar

18/02/2016	Release of full year 2015 results
06/04/2016	Shareholders' Ordinary and Extraordinary Meeting

For further information, please contact

Investor relations
Etienne Bertrand
Tel: +33 (0)1 49 09 35 58
etienne.bertrand@vallourec.com

Investor relations
Christophe Le Mignan
Tel: +33 (0)1 49 09 38 96
christophe.lemignan@vallourec.fr

Communications Director
Laurence Pernot
Tel: +33 (0)1 41 03 78 48
laurence.pernot@vallourec.com

Press relations
Héloïse Rothenbühler
Tel: +33 (0)1 41 03 77 50
heloise.rothenbuhler@vallourec.com