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Press release

Vallourec reports first quarter 2016 results

Q1 2016

- Revenues at €671 million, down 36.2% compared to Q1 2015 (-33.1% at constant exchange rates)
- EBITDA at -€72 million in Q1 2016
- Restructuring charges of €74 million and impairment charges of €63 million principally related to the strategic initiatives announced on 1 February 2016
- Net result, Group share of -€284 million in Q1 2016

Accelerating our transformation

- Successful completion of the c. €1 billion new capital raise
- Consultation with relevant workers' councils commenced in France as part of the project to reorganize European activities announced on 1 February 2016
- Global headcount at end of March 2016 down by c. 500 compared to end 2015
- Disposal of Vallourec Heat Exchanger Tubes finalized
- Clearance from the Brazilian Competition Authority to proceed with VBR and VSB merger

Boulogne-Billancourt (France), 3 May 2016 – Vallourec, world leader in premium tubular solutions, today announces its results for the first quarter of 2016 which were presented by Vallourec's Management Board to its Supervisory Board on 2 May 2016.

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

"As expected, the first quarter of 2016 was marked by a decrease in volumes. This new record low level illustrates the extent of the crisis the Oil & Gas markets are going through.

The success of our capital increase highlights the confidence of our shareholders. With a reinforced balance sheet, we are accelerating our transformation by implementing the major strategic initiatives announced at the beginning of February. They will enable us to structurally improve the Group's competitiveness and reposition it for long-term profitable growth.

Our market environment will be difficult in 2016. However, the long-term prospects of our industry remain positive and we are activating every possible flexibility and transformation lever. The support of our shareholders and the commitment of Group employees will enable us to weather this downturn and transform Vallourec into a stronger company when market conditions improve."

Information

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Key figures

In millions of euros	Q1 2016	Q1 2015	Change YoY
Sales Volume (k tons)	**251**	**412**	*-39.1%*
Revenues	**671**	**1,052**	*-36.2%*
EBITDA	**(72)**	**53**	*na*
As % of sales	*-10.7%*	*5.0%*	*-15.7pts*
Operating income (loss)	**(290)**	**(35)**	*na*
Net income, Group share	**(284)**	**(76)**	*na*
Free cash flow[1]	**(239)**	**(30)**	*na*

(1) *Free cash flow (FCF) is a non-GAAP measure and is defined as cash flow from operating activities minus gross capital expenditure and plus/minus change in operating working capital requirement*

na: not applicable

I - CONSOLIDATED REVENUES BY MARKET

In millions of euros	Q1 2016	Q1 2015	Change YoY
Oil & Gas, Petrochemicals	469	719	*-34.8%*
Power Generation	85	143	*-40.6%*
Industry & Other	117	190	*-38.4%*
Total	**671**	**1,052**	***-36.2%***

Oil & Gas, Petrochemicals (69.9% of revenues)

Oil & Gas sales reached €439 million in Q1 2016, down -32.8% year-on-year (down -30.2% at constant exchange rates).

- **In the USA**, revenues were down sharply due to the very low final demand for OCTG and continued inventory reduction by distributors, as a result of the significant decline of the active rig count (-60% compared to the first quarter of 2015). This resulted in persistent pressure on sales prices. As a reminder, first quarter 2015 sales were supported by a strong order book recorded at the end of 2014 with prices at a good level.

- **In the EAMEA region**, revenues improved over the first quarter of 2015 due to a favourable mix effect. However bookings remained very low, as IOCs postpone a number of projects.

- **In Brazil**, first quarter 2016 revenues fell sharply compared to the first quarter of 2015, impacted in particular by the decline in drilling activity of Petrobras.

Petrochemicals revenues fell at €30 million in Q1 2016, down -54.5% year-on-year (-53.0% at constant exchange rates).

Power Generation (12.7% of revenues)

Power Generation sales reached €85 million in Q1 2016, down -40.6% year-on-year (-38.5% at constant exchange rates).

- **Conventional power generation** revenues were affected by lower deliveries compared to the first quarter of 2015. However, a good level of orders was booked during Q1 2016.
- In **nuclear**, revenues were affected by a very low level of deliveries in Q1 2016.

Industry & Other (17.4% of revenues)

Industry & Other revenues amounted to €117 million in Q1 2016, down -38.4% year-on-year (-31.6% at constant exchange rates).

Revenues declined in Europe with sharply lower volumes compared to the first quarter of 2015, as well as in Brazil where the recession is affecting all industrial sectors. In Brazil, the fall in iron ore prices compared to the first quarter of 2015 significantly impacted revenues from this activity.

However, bookings picked up slightly in Europe during the first quarter 2016.

II - CONSOLIDATED RESULTS ANALYSIS

EBITDA stood at -€72 million in Q1 2016, a slight improvement compared to -€77 million in Q4 2015, and down -€125 million compared to Q1 2015. This is due to:

- Consolidated revenues down -36.2% compared to Q1 2015 (-33.1% at constant exchange rates) to €671 million due to the decrease in volumes (-39.1%), despite a positive translation effect (-3.1%) and a slightly positive price, product and forex mix effect (+6%);
- Lower industrial margin at €50 million, down €144 million mainly affected by: (i) inefficiencies of low load in the mills, despite high adaptation of costs; (ii) price deflation, especially in the Oil & Gas market;
- Lower sales, general and administrative costs (SG&A) of €116 million, down 15.3% compared to Q1 2015.

Operating result was a loss of €290 million in Q1 2016, compared to a loss of €35 million in Q1 2015, resulting primarily from (i) lower EBITDA and from (ii) restructuring charges of €74 million and impairment charges of €63 million mainly related to the strategic initiatives announced on 1 February 2016.

For the first quarter of 2016, financial result was negative at -€34 million versus -€21 million in Q1 2015, resulting primarily from the evolution of the forex result.

The income tax was a profit of €28 million in Q1 2016 compared to a charge of -€17 million in Q1 2015, mainly related to recognition of deferred tax assets.

The share attributable to non-controlling interests amounted to -€14 million in Q1 2016, compared to +€4 million in Q1 2015.

Net income, Group share was a loss of €284 million in Q1 2016, compared to a loss of €76 million in Q1 2015.

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III - CASH FLOW & FINANCIAL POSITION

Vallourec generated a negative free cash flow of -€239 million in Q1 2016 compared to -€30 million in Q1 2015. This is mainly explained by:

- Negative cash flow from operating activities at -€135 million, resulting from the drop in EBITDA;
- An increase in the operating working capital requirement of €61 million in Q1 2016 as a result of seasonal effect;
- Capital expenditure at -€43 million, compared to -€48 million in Q1 2015.

As at 31 March 2016, Group net debt increased by €270 million compared to 31 December 2015 to reach €1,789 million, representing a gearing ratio of 65.8% compared to 50.0% at the end of 2015 (and of 56% at the end of Q1 2016 compared to 43% at the end of 2015 under the Group's bank facilities covenant calculation).

Beyond the effect related to free cash flow, the increase in net debt during the first quarter is also due to the deposit in an escrow account of €57 million in relation to the on-going acquisition of Tianda.

IV - LIQUIDITY

As at 31 March 2016, Vallourec's liquidity position consisted of €1.790 billion medium and long-term committed facilities, including €795 million drawn, and €1.3 billion of available cash.

At the same date, short-term debt amounted to €2.019 billion, including the €650 million bond maturing in February 2017.

As from 3 May 2016, Vallourec benefits from a new credit facility of €450 million maturing in 2020, and from a 3-year extension of a short-term credit line for an amount of $80 million for its U.S. subsidiary Vallourec Star, LP, bringing the total of long-term confirmed credit lines to c. €2.3 billion.

V - ACCELERATING OUR TRANSFORMATION

Following the successful completion of its c. €1 billion capital increase, Vallourec has reinforced its balance sheet and is accelerating its transformation.

With Bpifrance having obtained clearance from the Brazilian Competition Authority, the mandatory convertible bonds for which it subscribed in the aforementioned capital increase will be converted following the bonds' issuance. This conversion will result in the issuance of 11,647,134 new ordinary shares from the conversion of 1,294,126 Tranche A bonds and 18,635,430 new ordinary shares from the conversion of 18,635,430 Tranche B bonds, bringing Bpifrance's total holdings to 66,695,707 ordinary shares, or 17.41%, of Vallourec's share capital. Following such conversion, Vallourec's outstanding share capital will consist of 383,072,484 ordinary shares, par value of 2 euros each.

Implementation of cost reduction plans continues, in line with objectives set.

Group headcount at the end of March 2016 is down by c. 500 compared to the end of 2015.

As part of the project to reorganize European mills announced on 1 February 2016, which aims to sustainably address the issue of overcapacity and to refocus on high value-added activities, consultation with relevant workers' councils commenced mid-April in France for an expected period of four months.

Vallourec has obtained clearance from the Brazilian Competition Authority to proceed with the merger of Vallourec Tubos do Brasil (VBR) and Vallourec & Sumitomo Tubos do Brasil (VSB) which should be completed before year end. Furthermore, in China, administrative procedures for the authorization of the acquisition of Tianda Oil Pipe are underway.

On 29 April 2016, Vallourec finalized the disposal of Vallourec Heat Exchanger Tubes, its subsidiary specialized in the production of welded titanium tubes for heat exchangers. This company will be deconsolidated in the Group's accounts as from 1 May 2016.

Finally, negotiations to dispose of a majority stake in the Saint-Saulve steel mill are ongoing.

VI - MARKET TRENDS & OUTLOOK

Second quarter 2016 revenues and results are expected to be better than in the first quarter as a consequence of the concentration of orders to be delivered during the second quarter.

However, the Group continues to anticipate a difficult second half of 2016. In the absence of a recovery in E&P Capex, Oil & Gas deliveries should continue to be impacted by the cyclical downturn on these markets:

- **In the EAMEA region,** deliveries in 2016 will be severely impacted by the very low order intake in 2015 and since the beginning of 2016. In the current environment, IOCs continue to postpone new projects and work on reducing their breakeven point. Vallourec will continue to mainly serve NOCs which are more dynamic, but at reduced prices as a result of fierce competition.
- **In the USA**, operators are expected to continue cutting costs and reducing activity in 2016. Therefore, low demand for OCTG tubes and low prices should persist. Ongoing inventory reduction at distributors is expected to end in H2 2016.
- **In Brazil**, Petrobras is reducing its drilling activity. Although it is maintaining the focus on development of pre-salt basins, delivery of OCTG tubes should decrease in 2016 compared to 2015.

Power Generation is expected to benefit from slightly higher revenues in 2016 compared to 2015 in the conventional power generation activity. The nuclear power generation activity should experience a slowdown in 2016 compared to 2015.

Industry & Other operations in Europe should continue to be affected by the weakness of global investments and pricing pressure. In Brazil, business will continue to suffer from the depressed local environment and from iron ore prices that are expected to be lower than in 2015.

In this context, the Group confirms its targets for 2016 as published in its Full Year 2015 financial results, namely:

- EBITDA lower than in 2015;
- Negative cash flow of approximately €-600 million (assuming a stable working capital requirement);
- Net debt not exceeding €1.5 billion at the end of the year, after the acquisition of Tianda, the full consolidation of VSB and the completion of the capital increase.

About Vallourec

Vallourec is a world leader in premium tubular solutions for the energy markets and for demanding industrial applications such as oil & gas wells in harsh environments, new generation power plants, challenging architectural projects, and high-performance mechanical equipment. Vallourec's pioneering spirit and cutting-edge R&D open new technological frontiers. Operating in more than 20 countries, its 20,000 dedicated and passionate people work hand-in-hand with their customers to offer more than just tubes: they deliver innovative, safe, competitive and smart tubular solutions, to make every project possible.

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: SBF 120 and Next 150.

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 Q1 2016 results

- Analyst conference call / audio webcast at 6:30 pm (Paris time) to be held in English.
- To listen to the audio webcast: http://edge.media-server.com/m/go/VallourecQ12016

  To participate in the call, please dial:
  +44 20 3427 1908 (UK),
  +33 1 76 77 22 27 (France),
  +1 212 444 0896 (USA),
  +44 20 3427 1908 (Other countries)
  Conference code: 9490879

- Audio webcast and slides will be available on the website at:
  http://www.vallourec.com/EN/GROUP/FINANCE

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Information and Forward-Looking Statements

This press release contains forward-looking statements. These statements include financial forecasts and estimates as well as assumptions on which they are based, statements related to projects, objectives and expectations concerning future operations, products and services or future performance. Although Vallourec's management believes that these forward-looking statements are reasonable, Vallourec cannot guarantee their accuracy or completeness and these forward-looking statements are subject to numerous risks and uncertainties that are difficult to foresee and generally beyond Vallourec's control, which may mean that the actual results and developments may differ significantly from those expressed, induced or forecasted in the statements. These risks include those developed or identified in the public documents filed by Vallourec with the AMF, including those listed in the "Risk Factors" section of the Registration Document filed with the AMF on 16 March 2016 (N° D.16-0141).

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This press release includes forward-looking statements relating to the Group's expectations or objectives. 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 realization of the expectations or objectives expressed or implied by these forward-looking statements is dependent on circumstances and facts, including those arising in the future, that may be outside of the Group's control. 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 Group. These factors may include changes in the Group's economic and commercial situation, regulations and the risk factors described in Chapter 5 of Vallourec's 2015 Registration Document filed with the AMF under number D.16-0141 on March 16, 2016 and in chapter 2 of the securities note which received visa number 16-126 from the AMF on April 7, 2016.

The contents of this announcement have not been verified by Banco Santander (which is authorised in Spain by the Bank of Spain and regulated in Spain by the CNMV (Spanish Securities Market Commission) and the Bank of Spain), BNP Paribas, Crédit Agricole Corporate and Investment Bank, Goldman Sachs International (which is authorised in the United Kingdom by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority), J.P. Morgan (which is authorised in the United Kingdom by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority), Natixis, Nomura (which is authorised in the United Kingdom by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority) and Société Générale Corporate & Investment Banking (together the "Banks")

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Calendar

28 July 2016	Release of second quarter and first half 2016 results

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Appendices

Documents accompanying this release:

- Sales volume
- Forex
- Revenues by geographic region
- Revenues by market
- Cash flow statement
- Free cash flow
- Summary consolidated income statement
- Summary consolidated balance sheet

Sales volume

In thousands of tonnes	2016	2015	Change YoY
Q1	**251**	412	*-39.1%*
Q2		362	
Q3		317	
Q4		320	
Total		**1,411**	

Forex

Average exchange rate	Q1 2016	Q1 2015
EUR / USD	**1.10**	**1.13**
EUR / BRL	**4.30**	**3.22**
USD / BRL	**3.91**	**2.86**

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Revenues by geographic region

In millions of euros	Q1 2016	*As % of revenues*	Q1 2015	*As % of revenues*	Change YoY	Q4 2015
Europe	135	*20.1%*	221	*21.0%*	*-38.9%*	*170*
North America	128	*19.1%*	401	*38.1%*	*-68.1%*	*215*
South America	98	*14.6%*	181	*17.2%*	*-45.9%*	*72*
Asia & Middle East	171	*25.5%*	178	*16.9%*	*-3.9%*	*234*
Rest of World	139	*20.7%*	71	*6.8%*	*+95.8%*	*170*
Total	**671**	***100.0%***	**1,052**	***100.0%***	***-36.2%***	***861***

Revenues by market

In millions of euros	Q1 2016	*As % of revenues*	Q1 2015	*As % of revenues*	Change YoY	Q4 2015
Oil & Gas	439	*65.4%*	653	*62.1%*	*-32.8%*	497
Petrochemicals	30	*4.5%*	66	*6.3%*	*-54.5%*	48
Oil & Gas, Petrochemicals	**469**	***69.9%***	**719**	***68.4%***	***-34.8%***	**545**
Power Generation	**85**	***12.7%***	**143**	***13.6%***	***-40.6%***	**157**
Mechanicals	58	*8.6%*	99	*9.4%*	*-41.4%*	82
Automotive	22	*3.3%*	35	*3.3%*	*-37.1%*	24
Construction & Other	37	*5.5%*	56	*5.3%*	*-33.9%*	53
Industry & Other	**117**	***17.4%***	**190**	***18.0%***	***-38.4%***	**159**
Total	**671**	***100.0%***	**1,052**	***100.0%***	***-36.2%***	**861**

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Cash flow statement

In millions of euros	Q1 2016	Q1 2015	Q4 2015
Cash flow from operating activities	(135)	+19	(144)
Change in operating WCR *+ decrease, (increase)*	(61)	(1)	+353
Net cash flows from operating activities	**(196)**	**+18**	**+209**
Gross capital expenditure	(43)	(48)	(109)
Financial investments	-	-	-
Dividends paid	-	-	(1)
Asset disposals & other items	(31)	(26)	15
Change in net debt ***+ decrease, (increase)***	**(270)**	**(56)**	**+114**
Net debt (end of period)	1,789	1,603	1,519

Free cash flow

In millions of euros	Q1 2016	Q1 2015	Change
Cash flow from operating activities (FFO) (A)	(135)	+19	-154
Change in operating WCR (B) *[+ decrease, (increase)]*	(61)	(1)	-60
Gross capital expenditure (C)	(43)	(48)	+5
Free cash flow (A)+(B)+(C)	**(239)**	**(30)**	**-209**

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Summary consolidated income statement

In millions of euros	Q1 2016	Q1 2015	Change YoY
REVENUES	**671**	**1 052**	***-36.2 %***
Cost of revenues[1]	**(621)**	**(858)**	*-27.6 %*
Industrial margin	***50***	***194***	*-74.2 %*
(as % of revenues)	*7,5%*	*18.4%*	*-10.9 pts*
SG&A costs[1]	**(116)**	**(137)**	*-15.3%*
Other income (expense), net	**(6)**	**(4)**	*na*
EBITDA	**(72)**	**53**	***na***
EBITDA as % of sales	*-10,7 %*	*5.0%*	*-15.7pts*
Depreciation of industrial assets	**70**	**(76)**	*-7.9%*
Amortization and other depreciation	**(11)**	**(12)**	*na*
Impairment of assets	**(63)**	**-**	*na*
Assets disposals, restructuring and other	**(74)**	**(2)**	*na*
OPERATING INCOME (LOSS)	**(290)**	**(35)**	***na***
Financial income (loss)	**(34)**	**(21)**	*61.9%*
PRE- TAX INCOME (LOSS)	**(324)**	**(56)**	***na***
Income tax	**28**	**(17)**	***na***
Share in net income (loss) of associates	**(2)**	**1**	*na*
NET INCOME FOR THE CONSOLIDATED ENTITY	**(298)**	**(72)**	***na***
Non-controlling interests	**14**	**(4)**	*na*
NET INCOME, GROUP SHARE	**(284)**	**(76)**	***na***
EARNINGS PER SHARE (in €)	**-2.1**	**-0.6**	*na*

(1) *Before depreciation and amortization*
na: not applicable

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Summary consolidated balance sheet

In millions of euros					
Assets	**31-Mar 2016**	**31-Dec 2015**	**Liabilities**	**31-Mar 2016**	**31-Dec 2015**
			Equity, Group share	**2,359**	**2,646**
Intangible assets, net	**142**	**149**	Non-controlling interests	**360**	**392**
Goodwill	**315**	**329**	**Total equity**	**2,719**	**3,038**
Net property, plant and equipment	**3,028**	**3,161**			
Biological assets	**156**	**155**	Bank loans and other borrowings	**1,111**	**1,763**
Associates	**170**	**177**	Employee benefits	**248**	**224**
Other non-current assets	**239**	**233**	Deferred tax liabilities	**191**	**216**
Deferred tax assets	**161**	**149**	Other long-term liabilities	**109**	**43**
Total non-current assets	**4,211**	**4,353**	**Total non-current liabilities**	**1,659**	**2,246**
Inventories and work-in-progress	**1,048**	**1,066**	Provisions	**268**	**238**
Trade and other receivables	**525**	**545**	Overdrafts and other short-term borrowings	**2,019**	**387**
Derivatives - assets	**71**	**20**	Trade payables	**475**	**523**
Other current assets	**352**	**307**	Derivatives - liabilities	**114**	**152**
Cash and cash equivalents	**1,341**	**631**	Other current liabilities	**301**	**347**
Total current assets	**3,337**	**2,569**	**Total current liabilities**	**3,177**	**1,647**
Assets held for sale	**66**	**69**	Liabilities disposal for sale	**59**	**60**
TOTAL ASSETS	**7,614**	**6,991**	**TOTAL LIABILITIES**	**7,614**	**6,991**
Net debt	**1,789**	**1,519**	**Net income, Group share**	**(284)**	**(865)**
Gearing ratio	**65.8%**	**50.0%**			

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