Press Release

July 2014
www.vallourec.com

Vallourec reports second quarter and first half 2014 results

Boulogne-Billancourt (France), 30 July 2014 – Vallourec, world leader in premium tubular solutions, today announces its results for the second quarter and first half of 2014. The consolidated financial statements were presented by Vallourec's Management Board to its Supervisory Board.

SECOND QUARTER 2014 (Q2) RESULTS:

- Sales of €1,422 million, up 3.3% year-on-year (up 8.7% at constant exchange rates)
- EBITDA of €248 million, up 7.8% year-on-year, with a 17.4% EBITDA margin
- Net income, Group share of €88 million, up 41.9% year-on-year

FIRST HALF 2014 (H1) RESULTS:

- Sales of €2,693 million, up 4.0% year-on-year (up 10.1% at constant exchange rates)
- EBITDA of €444 million, up 5.5% year-on-year, with a 16.5% EBITDA margin
- Net income, Group share of €144 million, up 48.5% year-on-year
- Positive H1 2014 Free Cash Flow at €37 million vs. -€100 million in H1 2013
- Net debt of €1,739 million as of June 30, 2014

KEY FIGURES

In millions of euros.

Q2 2014	Q2 2013	% Change		H1 2014	H1 2013	% Change
1,422	1,377	*+3.3%*	**Sales**	**2,693**	2,590	*+4.0%*
248	230	*+7.8%*	**EBITDA**	**444**	421	*+5.5%*
17.4%	*16.7%*	*+0.7pt*	*As % of sales*	***16.5%***	*16.3%*	*+0.2pt*
156	139	*+12.2%*	**Operating profit**	**265**	229	*+15.7%*
88	62	*+41.9%*	**Net income, Group share**	**144**	97	*+48.5%*
+1	(1)	*+€2m*	**Free Cash Flow[1]**	**+37**	(100)	*+€137m*

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

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

"We achieved a solid performance in the first half 2014, with sales up 10.1% at constant exchange rates and EBITDA up 5.5%. We continue to structurally improve our European cost base, and tightly manage working capital requirement and capital expenditures. This resulted in the generation of a positive free cash flow of €37 million over the period.

Information

Half-year financial statements at 30 June 2013 and 30 June 2014 are subject to limited review by statutory auditors.

Quarterly financial statements are unaudited and not subject to any review.

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Obviously, we are facing short-term challenges, notably in Brazil, that will affect our results in the second half of 2014, while we target 2014 sales to be close to 2013 level. As a result, we have taken immediate actions on the operational front to mitigate these temporary negative impacts, and adapt our industrial operations to the lower load. Vallourec's management and operational teams remain focused on generating positive Free Cash Flow for 2014.

We continue to build on the long-term attractiveness of global Oil & Gas markets, driven by the need for E&P capital expenditures, and remain confident that our strategy positions us well to capture future growth in these markets."

I - CONSOLIDATED SALES BY MARKET

For the second quarter of 2014, Vallourec recorded sales of €1,422 million, up 3.3% compared with the second quarter of 2013 (up 8.7% at constant exchange rates). Higher volumes (+7.4%) and a positive price and product mix effect (+1.3%) were partly offset by a negative currency translation effect (-5.4%).

For the first half of 2014, Vallourec recorded sales of €2,693 million, up 4.0% compared with the first half of 2013 (up 10.1% at constant exchange rates). While prices and the product mix were stable, higher volumes (+10.1%) were partly offset by a negative currency translation effect (-6.1%) due to the persisting weakness of the Brazilian real and the U.S. dollar against the Euro.

In millions of euros.

Q2 2014	Q2 2013	% Change		H1 2014	H1 2013	% Change
956	911	*+4.9%*	Oil & Gas	1,778	1,679	*+5.9%*
61	77	*-20.8%*	Petrochemicals	127	152	*-16.4%*
1,017	**988**	***+2.9%***	**Total Oil & Gas, Petrochemicals**	**1,905**	**1,831**	***+4.0%***
71.5%	*71.8%*		*% of total sales*	*70.7%*	*70.7%*	
143	**121**	***+18.2%***	**Power Generation**	**278**	**257**	***+8.2%***
10.1%	*8.7%*		*% of total sales*	*10.3%*	*9.9%*	
262	**268**	***-2.2%***	**Industry & Other**	**510**	**502**	***+1.6%***
18.4%	*19.5%*		*% of total sales*	*19.0%*	*19.4%*	
1,422	**1,377**	***+3.3%***	**Total**	**2,693**	**2,590**	***+4.0%***

Oil & Gas, Petrochemicals

For the second quarter of 2014, **Oil & Gas** sales were up 4.9% year-on-year (up 10.5% at constant exchange rates) to €956 million.

For the first half of 2014, **Oil & Gas** sales were up 5.9% year-on-year (up 12.4% at constant exchange rates) to €1,778 million.

- During the first half of 2014, the demand in the USA was supported by a 3.2% year-on-year increase in the average active rig count and gains in drilling efficiency. Higher volumes sold reflected this increased demand, and the commercial success of Vallourec's enlarged offer with existing and new customers, served by the successful ramp-up of the new rolling mill. The proportion of API and semi-premium products in Vallourec's portfolio in H1 2014 was more important than in H1 2013. Selling prices of OCTG sold by Vallourec will increase in the second half of 2014, offsetting the increase in scrap costs experienced at the beginning of the year.

- Sales increased in the EAMEA[1] region in the first half of 2014 compared to the first half of 2013, resulting from an exceptionally strong backlog generated in 2013, especially in the Middle East, with

[1] EAMEA: Europe, Africa, Middle East, Asia

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high advanced premium products. As announced in early June, the level of orders recorded by Vallourec has reduced in the region in Q2 2014. This will impact the Group's deliveries until mid-2015. This resulted from E&P[2] operators adjusting their inventories and delaying some tenders for premium products, in an environment where IOCs[3] are constantly looking at optimizing their E&P spending. This does not however change the positive structural trends relying on major E&P capex programs in the region, required to offset depletion and to support growing domestic oil and gas demand for instance in Saudi Arabia and Abu Dhabi.

- Sales decreased in Brazil in the first half of 2014 due to the temporary decline in tonnages of OCTG casing tubes for offshore delivered during the first quarter of 2014, despite the restart of deliveries to Petrobras in Q2 2014, and to the negative effect of the translation of the Brazilian real. Vallourec sales were also impacted in H1 2014 by the low level of IOCs' activities in Brazil due partly to disappointing exploration results.
  As announced by the Group in early June, Petrobras' decision to eliminate most of its tube inventories by the end of the year will heavily weigh on Vallourec's sales in the second half of 2014, with an estimated net EBITDA impact of circa €60 million. Nonetheless, Petrobras did confirm its drilling schedule.

For the second quarter of 2014, **Petrochemicals** sales reached €61 million, down 20.8% year-on-year (down 15.6% at constant exchange rates) mainly affected by a continuous intense competition.
For the first half of 2014, **Petrochemicals** sales reached €127 million, down 16.4% year-on-year (down 11.8% at constant exchange rates).

Power Generation

For the second quarter of 2014, **Power Generation** sales stood at €143 million, up 18.2% year-on-year (up 19.8% at constant exchange rates).

For the first half of 2014, **Power Generation** sales stood at €278 million, up 8.2% year-on-year (up 9.3% at constant exchange rates).
Vallourec continues to successfully serve the conventional power generation market, especially in Asia and in the Middle East. In the nuclear activity, sales were up year-on-year benefiting from a favourable comparison base. As a reminder, H1 2013 sales were affected by a low Q2 2013 due to the rescheduling of some projects from 2013 to 2014.

Industry & Other

For the second quarter of 2014, Industry & Other sales stood at €262 million, down 2.2% year-on-year (up 4.1% at constant exchange rates).

For the first half of 2014, Industry & Other sales stood at €510 million, up 1.6% year-on-year (up 9.6% at constant exchange rates).

- **In Europe**, sales benefited from higher volumes mainly driven by positive trends in agricultural goods partly offset by lower prices and product mix. The market environment remains highly competitive despite slightly better macroeconomic indicators.
- **In Brazil**, sales were slightly down year-on-year notably due to the decrease of heavy vehicles sales (domestic and export). Moreover, the deterioration of macroeconomic environment is affecting Vallourec's sales to distributors and to EPC[4] companies. Iron ore sales were slightly up in euros in H1 2014.

[2] E&P: Exploration and Production
[3] IOC: International Oil Company
[4] EPC: Engineering, Procurement and Construction

II – FINANCIAL RESULTS

Summary consolidated income statement

In millions of euros.

Q2 2014	Q2 2013	% Change		H1 2014	H1 2013	% Change
583	**543**	***+7.4%***	**Sales Volume (k tonnes)**	**1,134**	**1,030**	***+10.1%***
1,422	**1,377**	***+3.3%***	**Sales**	**2,693**	**2,590**	***+4.0%***
(1,019)	(991)	*+2.8%*	Cost of sales[1]	(1,960)	(1,877)	*+4.4%*
71.7%	*72.0%*	*-0.3pt*	*(as % of sales)*	*72.8%*	*72.5%*	*+0.3pt*
403	***386***	***+4.4%***	***Industrial margin***	***733***	***713***	***+2.8%***
28.3%	*28.0%*	*+0.3pt*	*(as % of sales)*	*27.2%*	*27.5%*	*-0.3pt*
(143)	(140)	*+2.1%*	SG&A costs[1]	(273)	(272)	*+0.4%*
10.1%	*10.2%*	*-0.1pt*	*(as % of sales)*	*10.1%*	*10.5%*	*-0.4pt*
248	**230**	***+7.8%***	**EBITDA**	**444**	**421**	***+5.5%***
17.4%	*16.7%*	*+0.7pt*	*As % of sales*	*16.5%*	*16.3%*	*+0.2pt*
156	**139**	***+12.2%***	**Operating profit**	**265**	**229**	***+15.7%***
88	**62**	***+41.9%***	**Net income, Group share**	**144**	**97**	***+48.5%***

(1) *Before depreciation and amortization*

Q2 2014 consolidated income statement analysis

For the second quarter of 2014, EBITDA stood at €248 million, up 7.8% year-on-year. EBITDA margin increased by 70 bp compared with the second quarter of 2013 to 17.4% of sales. This resulted from:

- An improved industrial margin at €403 million, representing 28.3% of sales, compared with 28.0% in Q2 2013. Following a strong first quarter, the industrial margin progressed due to a robust performance of the Oil & Gas operations in the second quarter of 2014, notably in EAMEA, despite the negative impact of the stronger euro against the U.S. dollar. Notwithstanding the restart of casing tubes deliveries to Petrobras in Q2 2014, Brazilian contribution remained lower compared to Q2 2013.
- Broadly stable Sales, general and administrative costs (SG&A) in value at €143 million and at 10.1% as a percentage of sales. Cost inflation was mainly offset by a favourable currency effect.

H1 2014 consolidated income statement analysis

For the first half of 2014, EBITDA stood at €444 million, up 5.5% year-on-year. EBITDA margin reached 16.5% of sales in H1 2014 and was broadly stable compared with the first half of 2013. This resulted from:

- An improved industrial margin in value at €733 million, mainly thanks to the robust performance of Oil & Gas operations in EAMEA, but slightly down as a percentage of sales at 27.2% primarily explained by the lower contribution from Brazil and by the negative impact of the stronger euro against the U.S. dollar.
- Stable Sales, general and administrative costs (SG&A) of €273 million, benefiting from the effects of cost reduction measures and from a favourable currency effect. SG&A decreased from 10.5% of sales in H1 2013 to 10.1%.

Operating profit increased by 15.7% year-on-year to reach €265 million through improved EBITDA, despite higher depreciation of industrial assets, in line with the major investments of the last years. During the second quarter of 2014, the Group accrued a €11.6 million provision for restructuring plans in France, partly offset by one-off items for €10.8 million. As a reminder, the first half of 2013 included an exceptional provision of €20.6 million before tax.

For the first half of 2014, financial result was negative at -€31 million versus -€50 million in H1 2013. This improvement mainly resulted from a positive foreign exchange result in H1 2014 while slightly negative in H1 2013.

The **effective tax rate** was 31.6% in the first half of 2014, compared to 35.7% in the first half of 2013.

Net income, Group share stood at €144 million, up 48.5% versus last year.

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III – CASH FLOW & FINANCIAL POSITION

In millions of euros.

Q2 2014	Q2 2013	Change		H1 2014	H1 2013	Change
+200	+170	+30	Cash flow from operating activities (FFO) (A)	+360	+300	+60
(128)	(71)	-57	Change in operating WCR (B) *[+ decrease, - increase]*	(185)	(202)	+17
(71)	(100)	+29	Gross capital expenditures (C)	(138)	(198)	+60
+1	**(1)**	**+2**	**Free Cash Flow (A)+(B)+(C)**	**+37**	**(100)**	**+137**

For the first half of 2014, Vallourec generated a positive free cash flow of €37 million compared with -€100 million in the first half of 2013. This performance resulted from the following items:

- **Cash flow from operating activities** was up €60 million in the first half of 2014 at €360 million, largely due to EBITDA improvement, and to the decrease in income taxes paid.
- **Operating working capital requirement** increased by €185 million in the first half of 2014. As a reminder, the working capital at the end of December 2013 benefited from positive non-recurring items.
- **Gross capital expenditures** stood at €138 million in the first half of 2014, down 30.3% year-on-year, reflecting the strict and efficient control of capital expenditures. Vallourec formerly announced its decision to reduce its capital expenditures by €100 million (down from an initial target of €500 million to €400 million for 2014). The Group continues to target capital expenditures to €450 million on average from 2015 onwards.

In June 2014, the Holding company paid €84.7 million dividend to its shareholders in cash. The payment of the dividend in shares resulted in the creation of 518,416 new shares (i.e. 0.4 % of the share capital).

As of June 30, 2014, net debt was €1,739 million, an increase of €108 million compared to the end of 2013. The gearing ratio was 33.5%.

As of June 30, 2014, Vallourec had approximately €3 billion of committed financings, which included undrawn confirmed credit lines of €1.7 billion.

IV - MARKET TRENDS & OUTLOOK 2014

In Oil & Gas, lower bookings recorded in EAMEA during the second quarter due to inventory adjustments by E&P operators and postponed tenders will impact deliveries until mid-2015. In spite of this temporary impact, the EAMEA region remains a dynamic area and continues to support the long term growth expectations.
In the USA, the Group continues to experience a good level of OCTG sales supported by higher drilling activity and improving prices, despite a less favourable mix.
In Brazil, the contribution of Oil & Gas operations in 2014 will be lower than in 2013 as a result of Petrobras' decision to eliminate most of its tube inventories by year-end, while maintaining its drilling plans unchanged. However, this one-time impact on Vallourec's sales in H2 2014 and especially in the fourth quarter, does not change the long term potential for deep offshore pre-salt in Brazil.
The Brazilian non-Oil & Gas operations will continue to be impacted by the deterioration in the local macroeconomic environment, and declining iron ore prices.
The Group does not foresee any change in trends in the Power Generation and Industry & Other European operations.

The strength of the Euro will continue to impact negatively the profitability of the deliveries from Europe.

Assuming no significant changes in markets and currencies, Vallourec confirms its target of 2014 EBITDA down by approximately 10% compared to 2013. The Group remains focused on generating positive Free Cash Flow for 2014.

About Vallourec

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

With over 24,000 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 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 SBF 120.

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 / H1 2014 results

Wednesday 30 July 2014

- Analyst conference call / audio webcast at 6:00 pm (Paris time) to be held in English.
  To participate in the call, please dial:
  0800 279 4992 (UK), 0805 631 579 (France),
  1 877 280 2296 (USA), +44 (0)20 3427 1919 (Other countries)
  Conference code: 3979566
- Audio webcast and slides will be available on the website at:
  http://www.vallourec.com/EN/GROUP/FINANCE
- A replay of the conference call will be available until 6 August 2014.
  To listen to the replay, please dial:
  0800 358 7735 (UK), 0800 949 597 (France),
  1 866 932 5017 (USA), +44 (0)20 3427 0598 (Other countries)
  Access code: 3979566

Information and Forward-Looking Reflections

This press release contains forward-looking reflections and information. By their nature, these reflections and information include financial forecasts and estimates as well as the 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 reflections and information are reasonable, Vallourec cannot guarantee their accuracy or completeness and investors in Vallourec are hereby advised that these forward-looking reflections and information 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 differ significantly from those expressed, induced or forecasted in the forward-looking reflections and information. 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 Registered Document filed with the AMF on April 14, 2014 (N° D.14-0358).

Calendar

11/06/2014	Release of third quarter and first nine months 2014 results

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Appendices

Documents accompanying this release:

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

Sales volume

In thousands of tonnes	2014	2013	Change YoY
Q1	551	487	*+13.3%*
Q2	583	543	*+7.4%*
Q3	*na*	545	*na*
Q4	*na*	584	*na*
Total	**1,134**	**2,159**	*na*

na: not applicable

Forex

Average exchange rate	H1 2014	H1 2013
EUR / USD	**1.37**	1.31
EUR / BRL	**3.15**	2.67
USD / BRL	**2.30**	2.03

Sales by geographic region

In millions of euros.

	H1 2014	*As % of sales*	H1 2013	*As % of sales*	Change YoY
Europe	530	*19.7%*	511	*19.7%*	*+3.7%*
North America	774	*28.7%*	686	*26.5%*	*+12.8%*
South America	507	*18.8%*	608	*23.5%*	*-16.6%*
Asia & Middle East	656	*24.4%*	614	*23.7%*	*+6.8%*
Rest of World	226	*8.4%*	171	*6.6%*	*+32.2%*
Total	**2,693**	***100.0%***	**2,590**	***100.0%***	***+4.0%***

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Sales by market

In millions of euros.

	H1 2014	*As % of sales*	H1 2013	*As % of sales*	Change YoY
Oil & Gas	1,778	*66.0%*	1,679	*64.8%*	*+5.9%*
Petrochemicals	127	*4.7%*	152	*5.9%*	*-16.4%*
Power Generation	278	*10.3%*	257	*9.9%*	*+8.2%*
Mechanicals	211	*7.8%*	205	*7.9%*	*+2.9%*
Automotive	105	*3.9%*	120	*4.6%*	*-12.5%*
Construction & Other	194	*7.3%*	177	*6.9%*	*+9.6%*
Total	**2,693**	***100.0%***	**2,590**	***100.0%***	***+4.0%***

Cash flow statement

In millions of euros.

Q2 2014	Q2 2013	Q1 2014		H1 2014	H1 2013
+200	+170	+160	Cash flow from operating activities	+360	+300
(128)	(71)	(57)	Change in operating WCR *+ decrease, (increase)*	(185)	(202)
+72	**+99**	**+103**	**Net cash flows from operating activities**	**+175**	**+98**
(71)	(100)	(67)	Gross capital expenditures	(138)	(198)
-	-	-	Financial Investments	-	-
(113)	(52)	(23)	Dividends paid	(136)	(52)
+1	+34	(10)	Asset disposals & other elements	(9)	+12
(111)	**(19)**	**+3**	**Change in net debt** ***+ decrease, (increase)***	**(108)**	**(140)**
1,739	1,754	1,628	Net debt (end of period)	1,739	1,754

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Summary consolidated income statement

In millions of euros.

Q2 2014	Q2 2013	% Change		H1 2014	H1 2013	% Change
1,422	1,377	***+3.3%***	**SALES**	**2,693**	2,590	***+4.0%***
(1,019)	(991)	*+2.8%*	Cost of sales[1]	**(1,960)**	(1,877)	*+4.4%*
403	*386*	*+4.4%*	***Industrial margin***	***733***	*713*	*+2.8%*
28.3%	*28.0%*	*+0.3pt*	*(as % of sales)*	*27.2%*	*27.5%*	*-0.3pt*
(143)	(140)	*+2.1%*	SG&A costs[1]	**(273)**	(272)	*+0.4%*
(12)	(16)	*na*	Other income (expense), net	**(16)**	(20)	*na*
248	230	***+7.8%***	**EBITDA**	**444**	421	***5.5%***
17.4%	*16.7%*	*+0.7pt*	*EBITDA as % of sales*	*16.5%*	*16.3%*	*+0.2pt*
(77)	(72)	*+6.9%*	Depreciation of industrial assets	**(148)**	(136)	*+8.8%*
(15)	(19)	*na*	Other (amortization, exceptional items, impairment & restructuring)	**(31)**	(56)	*na*
156	139	***+12.2%***	**OPERATING PROFIT**	**265**	229	***+15.7%***
(11)	(22)	*-50.0%*	Financial income (loss)	**(31)**	(50)	*-38.0%*
145	117	***+23.9%***	**PROFIT BEFORE TAX**	**234**	179	***+30.7%***
(46)	(42)	***+9.5%***	Income tax	**(74)**	(64)	***+15.6%***
0	(3)	*na*	Net profit of equity affiliates	**0**	1	*na*
99	72	***+37.5%***	**NET INCOME FOR THE CONSOLIDATED ENTITY**	**160**	116	***+37.9%***
(11)	(10)	*na*	Non-controlling interests	**(16)**	(19)	*na*
88	62	***+41.9%***	**NET INCOME, GROUP SHARE**	**144**	97	***+48.5%***
0.7	0.5	*na*	**EARNINGS PER SHARE (in €)**	**1.1**	0.8	*na*

(1) *Before depreciation and amortization*

na: not applicable

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Summary consolidated balance sheet

In millions of euros.

Assets	30-Jun 2014	31-Dec 2013	Liabilities	30-Jun 2014	31-Dec 2013
			Equity, Group share	**4,814**	4,601
Intangible assets, net	**190**	206	Non-controlling interests	**373**	385
Goodwill	**499**	495	**Total equity**	**5,187**	**4,986**
Net property, plant and equipment	**4,234**	4,151			
Biological assets	**204**	178	Bank loans and other borrowings	**1,399**	1,379
Investments in equity affiliates	**167**	173	Employee benefits	**216**	182
Other non-current assets	**454**	437	Deferred tax liabilities	**224**	209
Deferred tax assets	**211**	187	Other long-term liabilities	**237**	225
Total non-current assets	**5,959**	**5,827**	**Total non-current liabilities**	**2,076**	**1,995**
Inventories and work-in-progress	**1,612**	1,423	Provisions	**162**	138
Trade and other receivables	**1,080**	1,099	Overdrafts and other short-term borrowings	**1,222**	815
Derivatives - assets	**52**	92	Trade payables	**786**	833
Other current assets	**359**	297	Derivatives - liabilities	**7**	24
Cash and cash equivalents	**882**	563	Other current liabilities	**504**	510
Total current assets	**3,985**	**3,474**	**Total current liabilities**	**2,681**	**2,320**
TOTAL ASSETS	**9,944**	**9,301**	**TOTAL LIABILITIES**	**9,944**	**9,301**
Net debt	**1,739**	**1,631**	**Net income, Group share**	**144**	**262**

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