Press release

Vallourec reports first quarter 2018 results

- Revenue of €862 million, up 10.1% year-on-year (+22.1% at constant exchange rates)
- Q1 2018 EBITDA improved year-on-year at -€5 million
- H2 2018 EBITDA targeted to be significantly higher than H1, supported by higher prices in the US and deliveries on international Oil & Gas markets

Boulogne-Billancourt (France), 17 May 2018 – Vallourec, a world leader in premium tubular solutions, today announces its results for the first quarter of 2018. The consolidated financial information was presented by Vallourec's Management Board to its Supervisory Board on 16 May 2018.

Key figures

Q1 2018	Q1 2017	Change YoY	*In millions of euros*	Q4 2017
515	**475**	*8.4%*	**Sales Volume (k tons)**	**655**
862	**783**	*10.1%*	**Revenue**	**1,070**
(5)	**(21)**	*+€16m*	**EBITDA**	**11**
-0.6%	*-2.7%*	*+2.1 pts*	*As % of revenues*	*1.0%*
(170)	**(126)**	*-€44m*	**Net income (loss), Group share**	**(164)**
(254)	**(220)**	*-€34m*	**Free cash-flow**	**(26)**
31 Mar.2018	**Change over the period**		*In millions of euros*	**31 Dec. 2017**
1,783	*+€241m*		**Net debt**	**1,542**

Commenting on these results, Philippe Crouzet, Chairman of the Management Board, said:
"Vallourec's financial performance continues to improve: our revenue and EBITDA increased in the first quarter of 2018 compared to the previous year notably thanks to the strong momentum on the Oil & Gas market in the US. Compared to the last quarter of 2017, in spite of negative seasonality impact, cash flow from operating activities improved significantly.
Supported by robust oil prices, tendering activity is improving in International Oil & Gas markets. Since the beginning of the year, we have achieved significant commercial successes including the reinforcement of our long-standing partnership with Petrobras in Brazil, and we participated in large tenders which should benefit Vallourec deliveries from the end of 2018 on.
The final outcome of Section 232 measures in the US is uncertain, but we are ready to adapt as necessary, and to benefit from our local US production.
We are moving forward with our Transformation Plan, which is generating significant cost reductions, and we have initiated further adjustments in Europe.
Taking into account the gradual recovery in our main markets and the progress in our Transformation Plan, we confirm our positive outlook for the year with EBITDA in the second half of 2018 targeted to be significantly higher than in the first half."

Information
Quarterly financial 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.

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I - CONSOLIDATED REVENUE BY MARKET

In millions of euros	Q1 2018	Q1 2017	Change YoY	*Change YoY at constant exchange rates*	Q4 2017
Oil & Gas, Petrochemicals	584	533	*9.6%*	*24.2%*	708
Power Generation	98	84	*16.7%*	*20.2%*	125
Industry & Other	180	166	*8.4%*	*16.9%*	237
Total	**862**	**783**	***10.1%***	***22.1%***	**1,070**

Over the first quarter of 2018, Vallourec recorded revenue of €862 million, up 10.1% compared with the first quarter of 2017. Revenue was up 22.1% at constant exchange rates with a positive volume impact of 8.4% mainly driven by Oil & Gas operations in the US, and a positive price/mix effect of 13.7% resulting from higher prices in the US for Oil & Gas and Petrochemicals, and in Europe for Industry.

Sequentially, Q1 2018 Group revenue was down 19.4% compared with Q4 2017 (-17.3% at constant exchange rates). Lower volumes were mostly due to a seasonality effect. Price/mix was broadly stable with (i) improved prices in the Oil & Gas and Industry & Other activities, and (ii) lower prices in Power Generation.

Oil & Gas, Petrochemicals (67.7% of consolidated revenue)

Oil & Gas revenue reached €491 million in Q1 2018, up 1.2% year-on-year (+15.3% at constant exchange rates).

- **In the USA**, Oil & Gas revenue increased year-on-year, despite a negative forex effect: the number of active rig count rose soundly (+31%), supporting higher demand for OCTG tubes, and prices were raised in the second half of 2017. Vallourec initiated further price increases during Q1 2018, to be effective essentially as from H2 2018. Compared to Q4 2017 revenue was down essentially as a result of seasonality.

- **In the EA-MEA regions**, Oil & Gas volumes and revenue were broadly stable year-on-year. Negative forex translation impact was mainly offset by positive price/mix. Overall, tendering activity increased in these regions as anticipated.

- **In Brazil**, Oil & Gas revenue was down compared to Q1 2017, which benefited from higher than average OCTG deliveries to Petrobras for exploratory wells in the Libra field. Revenue was also significantly affected by the weakening of the Brazilian Real. In April 2018, Vallourec reinforced its unique long-standing relationship with Petrobras by signing new long-term contracts for the supply of the most comprehensive range of premium products and services.

Petrochemicals revenue was €93 million in Q1 2018, up 93.8% year-on-year (+114.6% at constant exchange rates), essentially as a result of the recovery in the US.

Power Generation (11.4% of consolidated revenue)

Power Generation revenue amounted to €98 million in Q1 2018, up 16.7% year-on-year (+20.2% at constant exchange rates). This increase was due to slightly higher volumes and better price/mix for Conventional power generation due to orders taken in H1 2017.

Industry & Other (20.9% of consolidated revenue)

Industry & Other revenue amounted to €180 million in Q1 2018, up 8.4% year-on-year (+16.9% at constant exchange rates):

- In Europe, Industry & Other revenue was up thanks to higher prices in Mechanical Engineering and Automotive applications.

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- In Brazil, Industry & Other revenue was broadly stable with higher volumes in Mechanical Engineering and Automotive driven by Brazilian economy recovery. Revenue from the mine was down as a result of lower iron ore market prices.

II - Q1 2018 CONSOLIDATED RESULTS ANALYSIS

In Q1 2018, EBITDA stood at -€5 million, up €16 million year-on-year, with:

- Consolidated revenue up 10.1%;
- An industrial margin of €103 million, up €2 million compared with Q1 2017, reflecting (i) higher activity (ii) savings resulting from the Transformation plan, (iii) partially offset by the increase in raw material prices and unfavorable currencies evolution. An increase of industrial margin was recorded in the North American Oil & Gas market, while it decreased in Brazil in comparison with Q1 2017, which had benefited from a more favorable forex impact along with higher than average offshore deliveries;
- Sales, general and administrative costs (SG&A) down 10.6% at €101 million, representing 11.7% of revenue compared with 14.4% in Q1 2017.

Compared with Q4 2017, Q1 2018 EBITDA decreased €16 million. As a reminder, net reversals in provisions were booked in Q4 2017 for €45 million, compared to €8 million in Q1 2018. Excluding these changes in provisions, Q1 2018 shows a significant improvement despite a negative seasonality impact.

Operating result was a loss of €130 million, compared to a loss of €111 million in Q1 2017. Q1 2018 operating result includes €13 million impairment charges as well as €33 million charges relating to asset disposal, restructuring and other. These non-recurring elements essentially result from restructuring provisions and impairments related to further restructuring measures undertaken in Europe in Q1 2018.

Financial result was negative at -€43 million, stable compared to Q1 2017. In Q1 2018, Vallourec recorded higher interest charges as a result of last year's OCEANE and bond issuances. As a reminder, Q1 2017 financial result included a loss of €8 million related to the change in fair value of Vallourec's NSSMC shares.

Income tax was nil compared to a gain of €19 million in Q1 2017. Tax gains were reduced compared to Q1 2017 as a consequence of the results recovery in North America.

The share attributable to non-controlling interests amounted to -€3 million, compared to -€11 million in Q1 2017.

This resulted in a net loss, Group share of -€170 million, compared to -€126 million in Q1 2017.

III - CASH FLOW & FINANCIAL POSITION

Over Q1 2018, free cash flow was -€254 million, with:

- Cash flow from operating activities of -€83 million, broadly stable compared to Q1 2017, with the improvement of EBITDA being offset by higher financial interests and taxes paid. Compared to Q4 2017, cash flow from operating activities improved by €41 million;
- The working capital requirement increased by €152 million, according to usual seasonality, and is targeted to decrease from this level by the end of the year. Working capital in days of sales was significantly reduced year-on-year;
- Capital expenditure of -€19 million, compared to -€34 million in Q1 2017.

As at 31 March 2018, Group net debt increased by €241 million compared to 31 December 2017 to reach €1,783 million.

Vallourec's cash position as at 31 March 2018 amounted to €0.8 billion. Medium and long-term undrawn committed facilities amounted to €2.0 billion. At the same date, short-term debt amounted to €0.8 billion, including €0.5 billion of commercial paper.

Vallourec reinforced its liquidity beginning of April 2018 by raising €400 million senior notes due 2023. The proceeds from the offering will be used, together with cash on hand, to refinance Vallourec's outstanding bonds due August 2019 by redeeming them when they mature.

IV – TRANSFORMATION PLAN

Vallourec continues to deploy its Transformation Plan which is generating significant savings.

Further milestones have been achieved since the beginning of 2018 with divestments as part of the continuous rationalization of the Group's asset portfolio. In April, Vallourec closed the sale of its Drilling Products business to NOV. The Group also closed the divestiture of Vallourec Fittings, a subsidiary producing seamless fittings in France.

The small tube finishing line in Saint-Saulve dedicated to conventional power plants is expected to be closed by the end of 2018[1].

V - MARKET TRENDS & OUTLOOK

Oil & Gas market fundamentals are improving. According to the latest IEA report, worldwide oil stocks have decreased significantly while countries which had committed to curb their production are maintaining a high discipline. These trends are supporting the increase of global tendering activity of oil companies.

In the US, Vallourec anticipates the average rig count to remain robust. This should allow Vallourec to pass further OCTG price increase in H2 2018, in addition to the full year impact of volume and price increases achieved in H2 2017. The effects of Section 232 measures under finalization, aiming at favoring domestic steel manufacturers, are still to be assessed. Vallourec is ready to both benefit and adapt, if necessary, to their final outcome.

In Brazil, drilling activity is expected to remain stable. The new long-term contracts signed with Petrobras will enter into force in H2 2018.

In the rest of the world, in the context of an increasing number of tenders for Oil & Gas projects, Vallourec anticipates higher bookings, with positive impacts on deliveries to materialize starting late H2 2018.

Improved macroeconomics in Europe and Brazil should benefit our Industry & Other operations. Power Generation revenue is expected to be impacted by a diminishing number of conventional power plant projects, particularly in Asia.

Despite unfavorable currencies and raw material prices, Vallourec confirms its positive outlook for the year based upon the progressive recovery of its main markets and the significant savings generated by its Transformation Plan. The Group targets 2018 EBITDA to improve versus 2017, with H2 2018 significantly higher than H1.

[1] *The implementation of the project is subject to prior consultation with relevant workers council.*

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. With close to 19,500 dedicated and passionate employees in more than 20 countries, Vallourec works hand-in-hand with its customers to offer more than just tubes: Vallourec delivers 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 2018 results

- Analyst conference call / audio webcast at 6:00 pm (Paris time) to be held in English.
- To listen to the audio webcast: https://edge.media-server.com/m6/go/Vallourec18Q1

  To participate in the call, please dial:

  +44 (0)330 336 9411 (UK),
  +33 (0)1 76 77 22 57 (France),
  +1 323-794-2551 (USA),
  +44 (0)330 336 9411 (Other countries)
  Conference code: 2064405
- Audio webcast and slides will be available on the website at:
  http://www.vallourec.com/EN/GROUP/FINANCE

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 21 March 2018.

Calendar

25 May 2018	Annual Shareholders' Meeting
25 July 2018	Release of second quarter and first half 2018 results

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Appendices

Documents accompanying this release:

- Sales volume
- Forex
- Revenue by geographic region
- Revenue by market
- Summary consolidated income statement
- Summary consolidated balance sheet
- Free cash flow
- Cash flow statement
- Definitions of non-GAAP financial data

Sales volume

In thousands of tons	2018	2017	Change YoY
Q1	**515**	475	*8.4%*
Q2		538	
Q3		588	
Q4		655	
Total	**515**	**2,256**	

Forex

Average exchange rate	Q1 2018	Q1 2017
EUR / USD	**1.23**	1.06
EUR / BRL	**3.99**	3.35
USD / BRL	**3.25**	3.15

Revenue by geographic region

In millions of euros	Q1 2018	*As % of revenues*	Q1 2017	*As % of revenues*	*Change YoY*
Europe	**137**	*15.9%*	115	*14.7%*	*19.1%*
North America	**279**	*32.4%*	187	*23.9%*	*49.2%*
South America	**140**	*16.2%*	163	*20.8%*	*-14.1%*
Asia & Middle East	**264**	*30.6%*	276	*35.2%*	*-4.3%*
Rest of World	**42**	*4.9%*	42	*5.4%*	-
Total	**862**	*100.0%*	**783**	***100.0%***	***10.1%***

Revenue by market

In millions of euros	Q1 2018	*As % of revenues*	Q1 2017	*As % of revenues*	*Change YoY*	Q4 2017
Oil & Gas	491	*57.0%*	485	*62.0%*	*1.2%*	614
Petrochemicals	93	*10.7%*	48	*6.1%*	*93.8%*	94
Oil & Gas, Petrochemicals	**584**	***67.7%***	**533**	***68.1%***	***9.6%***	**708**
Power Generation	**98**	***11.4%***	**84**	***10.7%***	***16.7%***	**125**
Mechanicals	93	*10.8%*	72	*9.2%*	*29.2%*	123
Automotive	38	*4.4%*	33	*4.2%*	*15.2%*	39
Construction & Other	49	*5.7%*	61	*7.8%*	*-19.7%*	75
Industry & Other	**180**	***20.9%***	**166**	***21.2%***	***8.4%***	**237**
Total	**862**	***100.0%***	**783**	***100.0%***	***10.1%***	**1,070**

Summary consolidated income statement

Q1 2018	Q1 2017	Change YoY	*In millions of euros*	Q4 2017
862	**783**	*10.1%*	**REVENUE**	**1,070**
(759)	(682)	*11.3%*	Cost of sales(1)	(944)
103	**101**	*2.0%*	***Industrial margin***	**126**
11.9%	*12.9%*	*-1.0 pt*	*(as % of revenue)*	*11.8%*
(101)	(113)	*-10.6%*	SG&A costs(1)	(117)
(7)	(9)	*na*	Other income (expense), net	2
(5)	**(21)**	*+€16m*	**EBITDA**	**11**
-0.6%	*-2.7%*	*+2.1 pts*	*EBITDA as % of revenue*	*1.0%*
(70)	(79)	*-11.4%*	Depreciation of industrial assets	(76)
(9)	(11)	*na*	Amortization and other depreciation	(11)
(13)	-	*na*	Impairment of assets	(64)
(33)	-	*na*	Asset disposals, restructuring and other	(66)
(130)	**(111)**	*-€19m*	**OPERATING INCOME (LOSS)**	**(206)**
(43)	(43)	*na*	Financial income (loss)	(34)
(173)	**(154)**	*-€19m*	**PRE-TAX INCOME (LOSS)**	**(240)**
-	19	*na*	Income tax	76
-	(2)	*na*	Share in net income (loss) of associates	-
(173)	**(137)**	*-€36m*	**NET INCOME (LOSS) FOR THE CONSOLIDATED ENTITY**	**(164)**
(3)	(11)	*na*	Non-controlling interests	-
(170)	**(126)**	*-€44m*	**NET INCOME (LOSS), GROUP SHARE**	**(164)**
(0.4)	**(0.3)**	*-€0.1*	**EARNINGS PER SHARE (in €)**	**(0.4)**

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

Summary consolidated balance sheet

In millions of euros					
Assets	31-Mar 2018	31-Dec 2017	Liabilities	31-Mar 2018	31-Dec 2017
			Equity, Group share	2,193	2,426
Net intangible assets	82	89	Non-controlling interests	443	459
Goodwill	339	348	**Total equity**	**2,636**	**2,885**
Net property, plant and equipment	2,840	2,977	Shareholder loan	71	72
Biological assets	71	71	Bank loans and other borrowings (A)	1,813	1,817
Associates	100	102	Employee benefits	198	209
Other non-current assets	134	137	Deferred tax liabilities	23	18
Deferred tax assets	241	242	Provisions and other long-term liabilities	71	61
Total non-current assets	**3,807**	**3,966**	**Total non-current liabilities**	**2,105**	**2,105**
Inventories and work-in-progress	1,121	1,004	Provisions	165	149
Trade and other receivables	575	568	Overdrafts and other short-term borrowings (B)	809	746
Derivatives - assets	27	32	Trade payables	549	582
Other current assets	239	231	Derivatives - liabilities	10	13
Cash and cash equivalents (C)	839	1,021	Tax and other current liabilities	319	321
Total current assets	**2,801**	**2,856**	**Total current liabilities**	**1,852**	**1,811**
Assets held for sale	77	64	Liabilities disposal for sale	21	13
TOTAL ASSETS	**6,685**	**6,886**	**TOTAL EQUITY AND LIABILITIES**	**6,685**	**6,886**
Net debt (A+B-C)	**1,783**	**1,542**	**Net income (loss), Group share**	**(170)**	**(537)**

Free cash flow

In millions of euros	Q1 2018	Q1 2017	Change	Q4 2017
Cash flow from operating activities (FFO) (A)	(83)	(82)	-€1m	(124)
Change in operating WCR (B) *[+ decrease, (increase)]*	(152)	(104)	-€48m	164
Gross capital expenditure (C)	(19)	(34)	€15m	(66)
Free cash flow (A)+(B)+(C)	**(254)**	**(220)**	**-€34m**	**(26)**

Cash flow statement

Q1 2018	Q1 2017	*In millions of euros*	Q4 2017
(83)	(82)	Cash flow from operating activities	(124)
(152)	(104)	Change in operating WCR + *decrease, (increase)*	164
(235)	**(186)**	**Net cash flow from operating activities**	**40**
(19)	(34)	Gross capital expenditure	(66)
-	-	Financial investments	-
-	-	Increase and decrease in equity	27
-	-	Impact of acquisition	-
-	-	Dividends paid	-
13	(26)	Asset disposals & other items	102
(241)	**(246)**	**Change in net debt + *decrease, (increase)***	**103**
1,783	1,533	Net debt (end of period)	1,542

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Definitions of non-GAAP financial data

Gross capital expenditure: Gross capital expenditure is defined as the sum of cash outflows for acquisitions of property, plant and equipment and intangible assets and cash outflows for acquisitions of biological assets.

Free cash-flow: Free cash-flow (FCF) is defined as cash-flow from operating activities minus gross capital expenditure and plus/minus change in operating working capital requirement.

Industrial margin: The industrial margin is defined as the difference between revenue and cost of sales (i.e. after allocation of industrial variable costs and industrial fixed costs), before depreciation.

Consolidated net debt: Consolidated net debt is defined as Bank loans and other borrowings plus Overdrafts and other short-term borrowings minus Cash and cash equivalents.

Banking Covenant: As defined in the bank loan agreements, the "banking covenant" ratio is the ratio of the Group's consolidated net debt to the Group's equity, restated for gains and losses on derivatives and for remeasurements (foreign currency gains and losses of consolidated subsidiaries).

Data at constant exchange rate: The data presented « at constant exchange rate » is calculated by eliminating the translation effect into euros for the revenue of the Group's entities whose functional currency is not the euro. The translation effect is eliminated by applying Year N-1 exchange rates to Year N revenue of the contemplated entities.