

# VALLOUREC

*2<sup>nd</sup> quarter 2010 results*



- **Half year financial statements at 30 June 2009 and 30 June 2010 are subject to limited audit review.**
- **Full year statements at 31 December 2009 have been audited.**
- **Quarterly statements are unaudited and not subject to any review.**

#### Information and Forward-Looking Reflections

This document 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 19, 2010.

1. Highlights
2. Financial results
3. Review by activity
4. Strategy and outlook

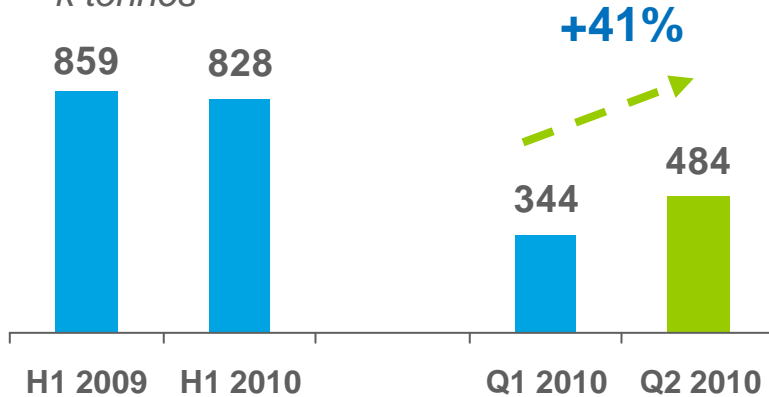


# 1. Highlights

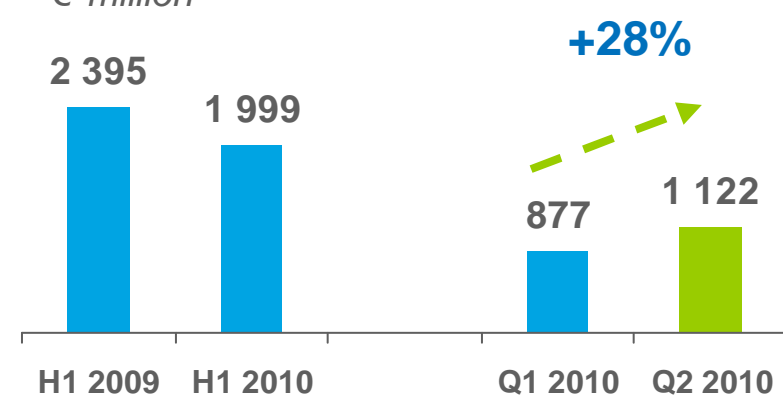


# Strong rebound in Q2 2010 H1 better than anticipated

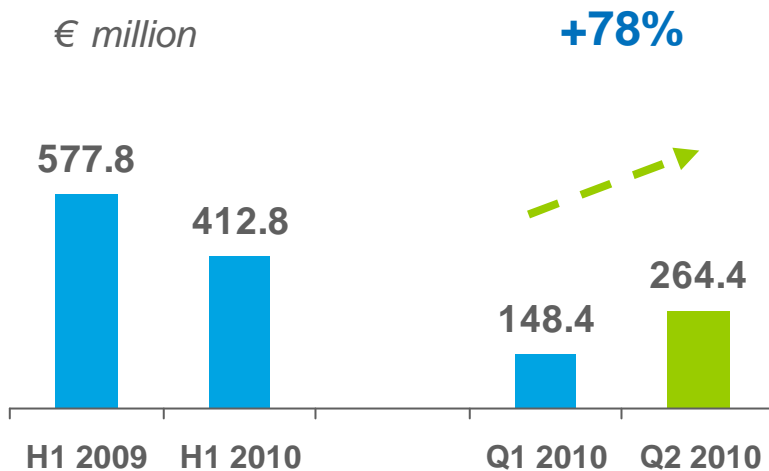
Sales Volume  
*k tonnes*



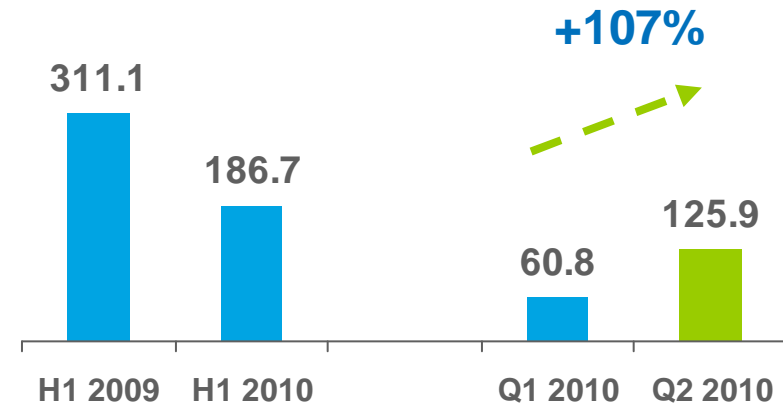
Sales  
*€ million*



EBITDA  
*€ million*



Net income, Group share  
*€ million*



# Increasing our presence in high growth markets

- Acquisition of Serimax
  
- Strengthening industrial presence in China
  
- Strategic investments
  - In Brazil – VSB on track for first tube production in Q4 2010
  - In North America – Construction under way of new pipe mill for unconventional gas

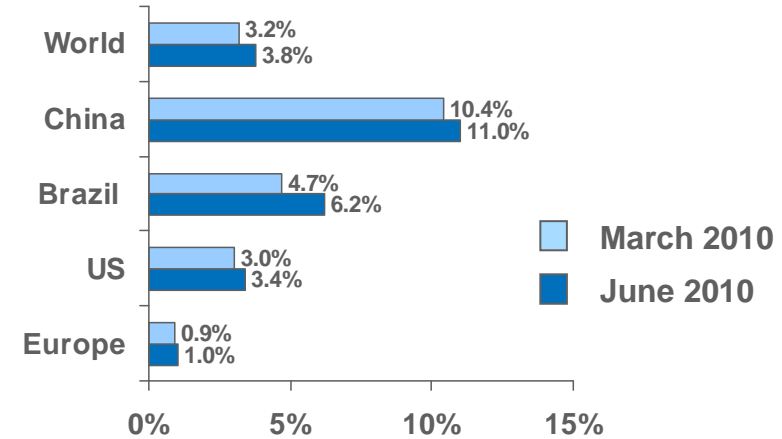
# Macro-economic forecasts revised upwards

## World GDP Growth

(% change y-o-y)

2009	-1.8%
Q1 2010	+3.6%
Q2 2010	+3.9%

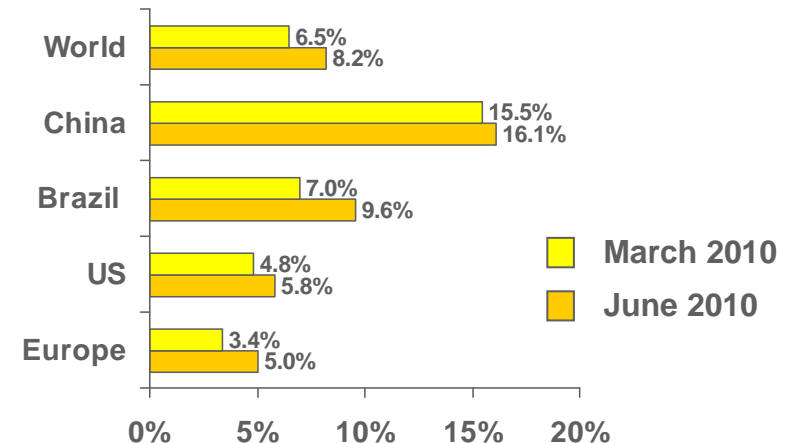
## 2010 estimates



## World Industrial Production Growth

(% change y-o-y)

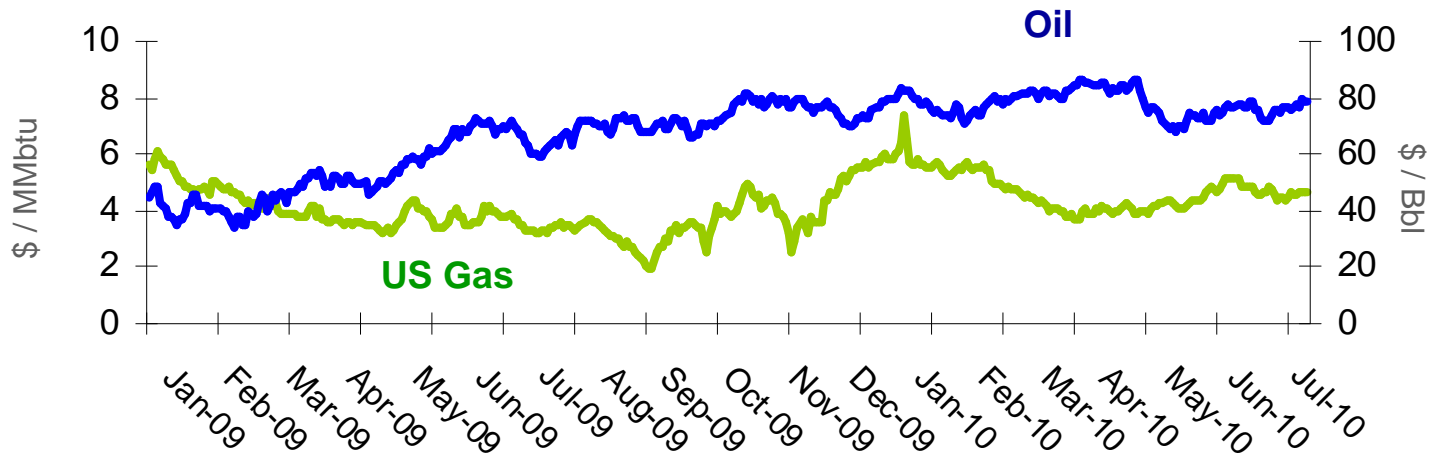
2009	-9.0%
Q1 2010	+7.9%
Q2 2010	+9.2%



Source: Global Insight

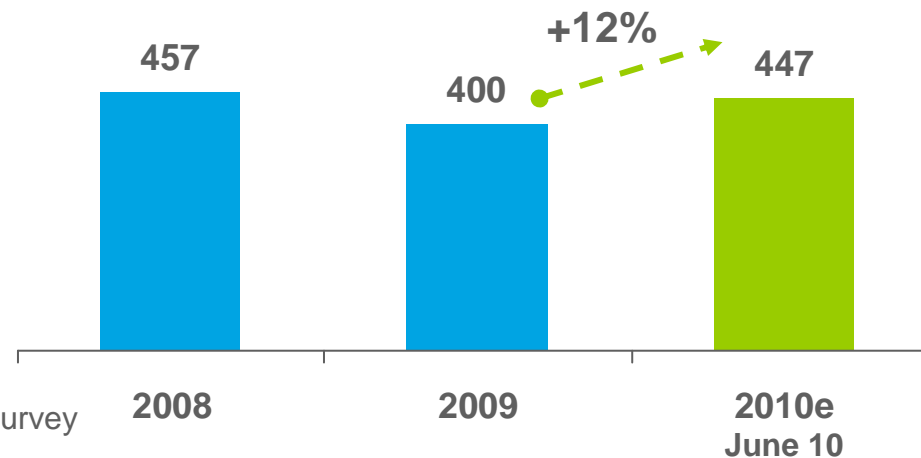
# Market indicators are positive

## Oil & Gas prices relatively stable



## Global E&P spending survey<sup>1</sup> revised upwards

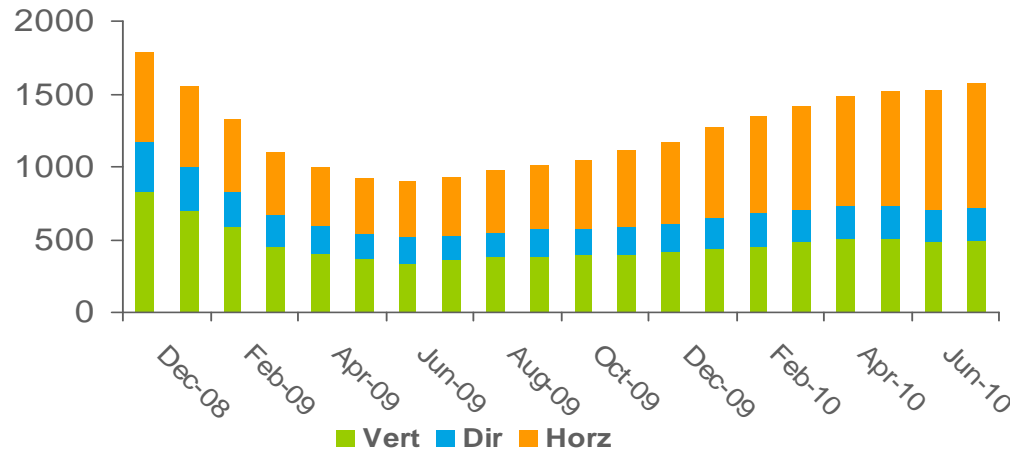
US\$ billion



<sup>1</sup> Barclays Capital Global E&P Survey

# Market indicators are positive

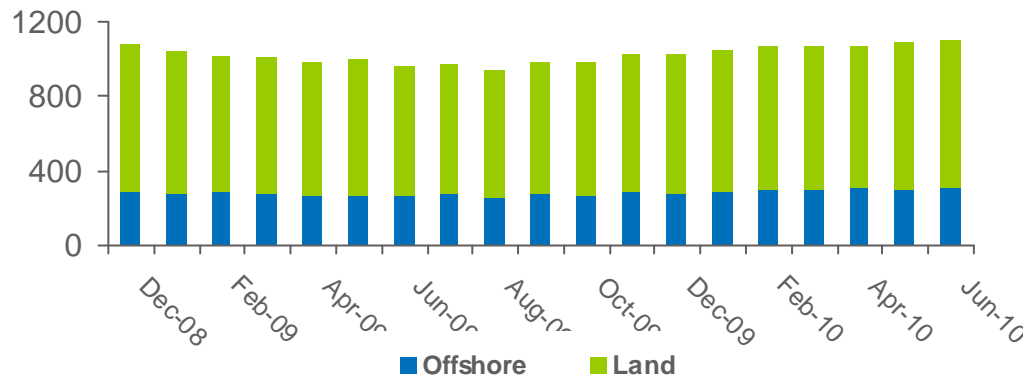
## US rig count continues to increase



1,585 active rigs @ 23/07/10  
+ 33% since 1 Jan 2010

**Horizontal: +50%**  
**Directional: +9%**  
**Vertical: +22%**

## International rig count increasing



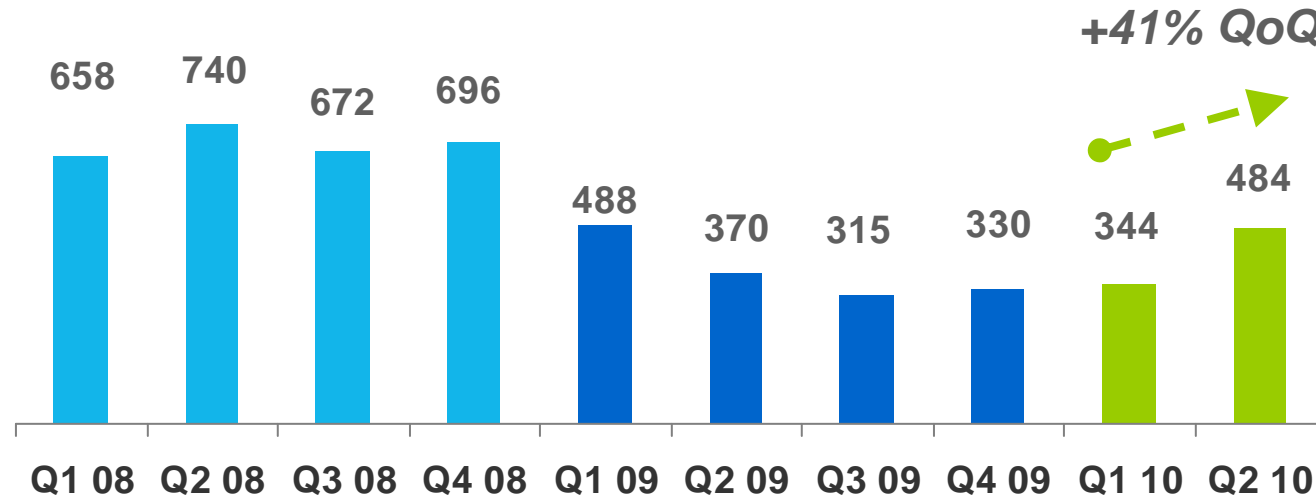
1,099 active rigs @ 30/06/10  
+ 7% since 1 Jan 2010

**Land: +6%**  
**Offshore: +11%**

# Bottom of the cycle is now behind us

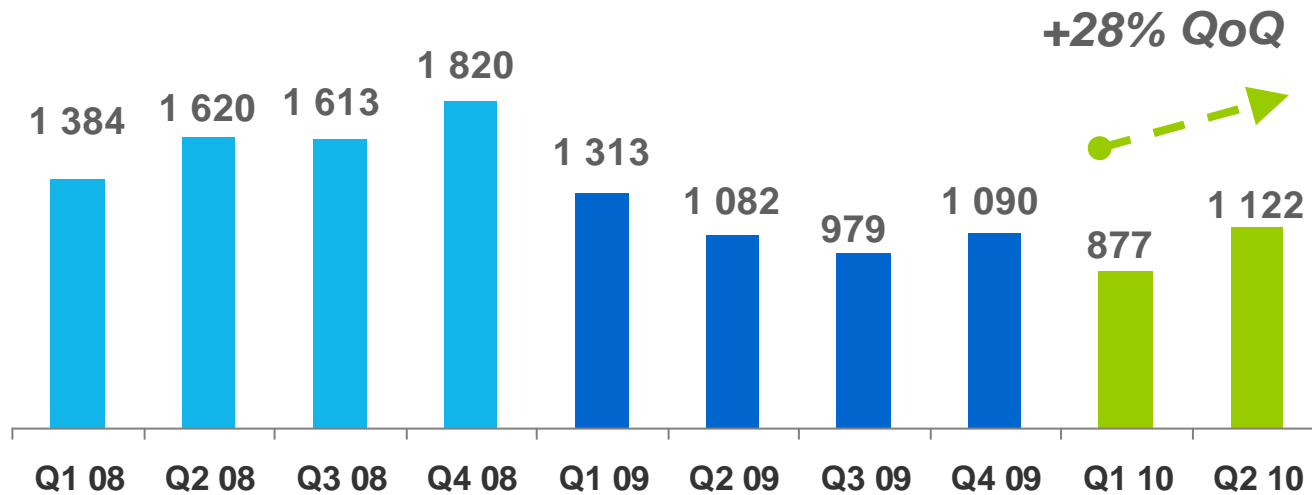
## Sales Volume

K tonnes



## Sales

€ million



## 2. Financial Results

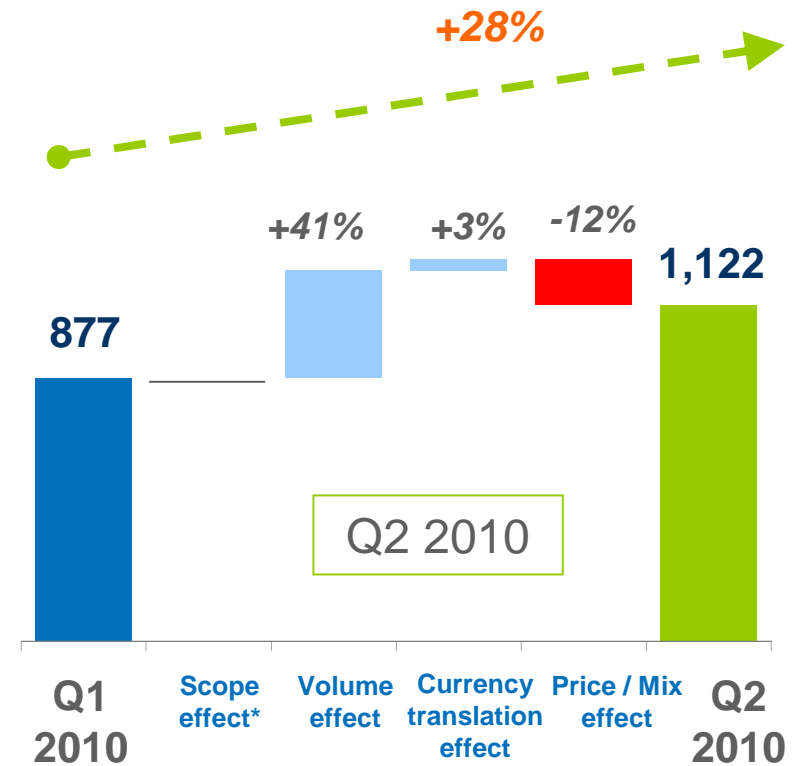
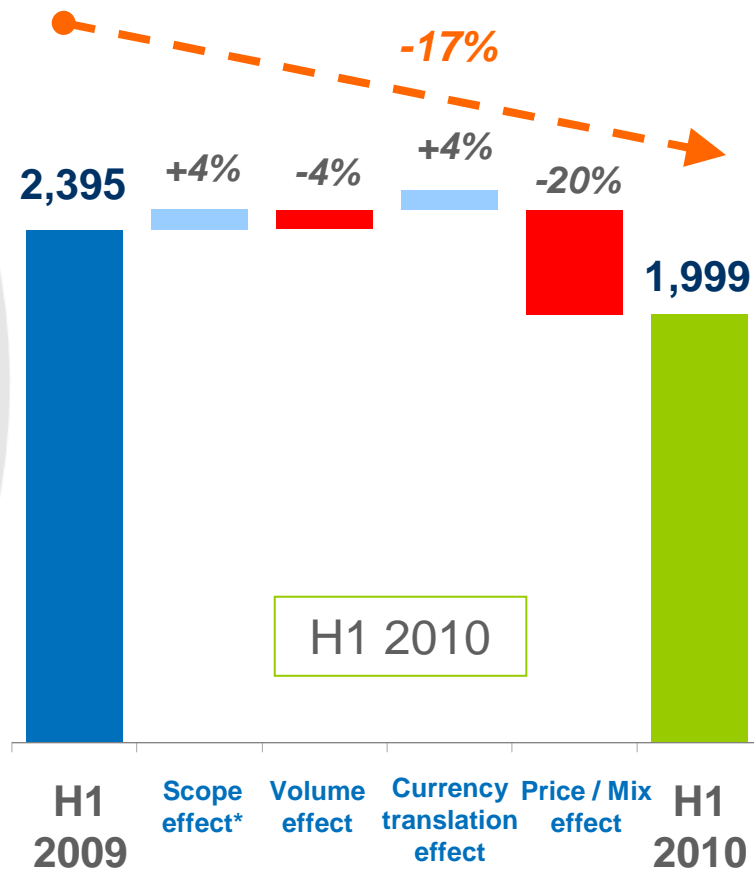


# Q2 2010 Key figures

	Q2 2010	Q1 2010	change
Volume (k tonnes)	484	334	+41%
Sales	€ 1,122 m	€ 877 m	+28%
EBITDA (as % of sales)	€ 264 m 23.6%	€ 148 m 17.8%	+78%
Net income Group share	€ 126 m	€ 61 m	+107%
Operating cash flows	€ 55 m	€ 83 m	-34%

# Volume recovery in Q2 2010 price/mix effect remains negative

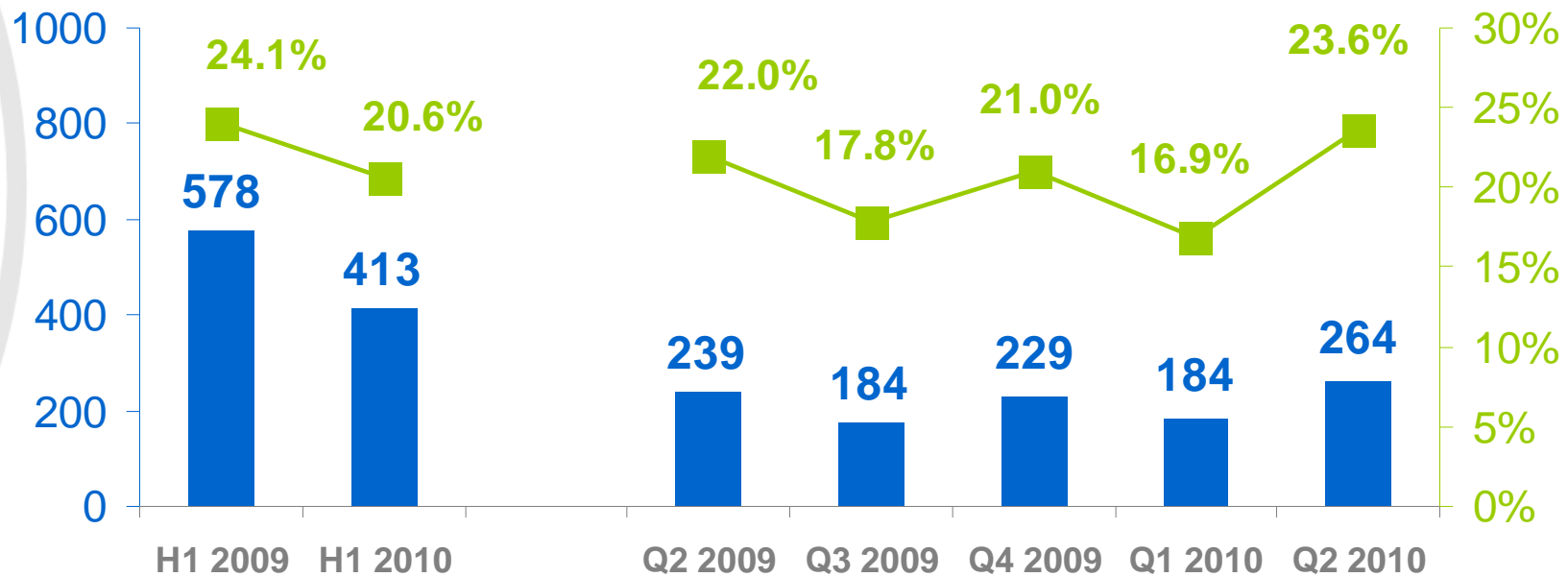
Sales in € million



\* Scope effect = PTCT, DPAL, Protools

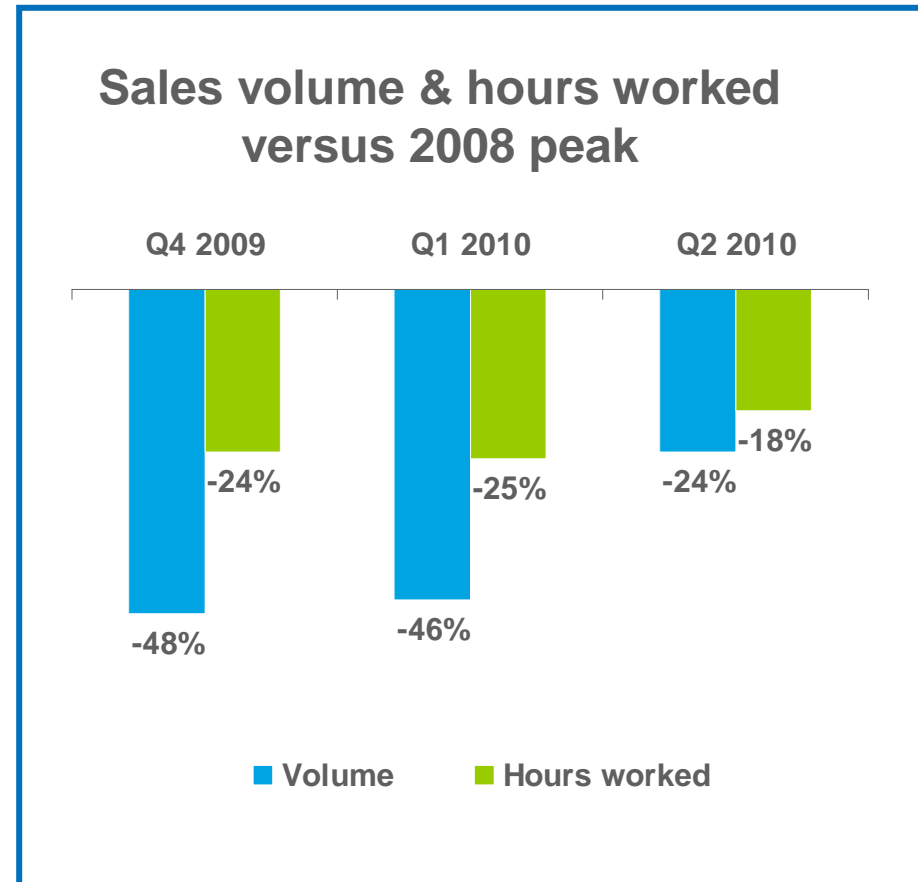
# EBITDA margin improved to 23.6%

## EBITDA / Sales



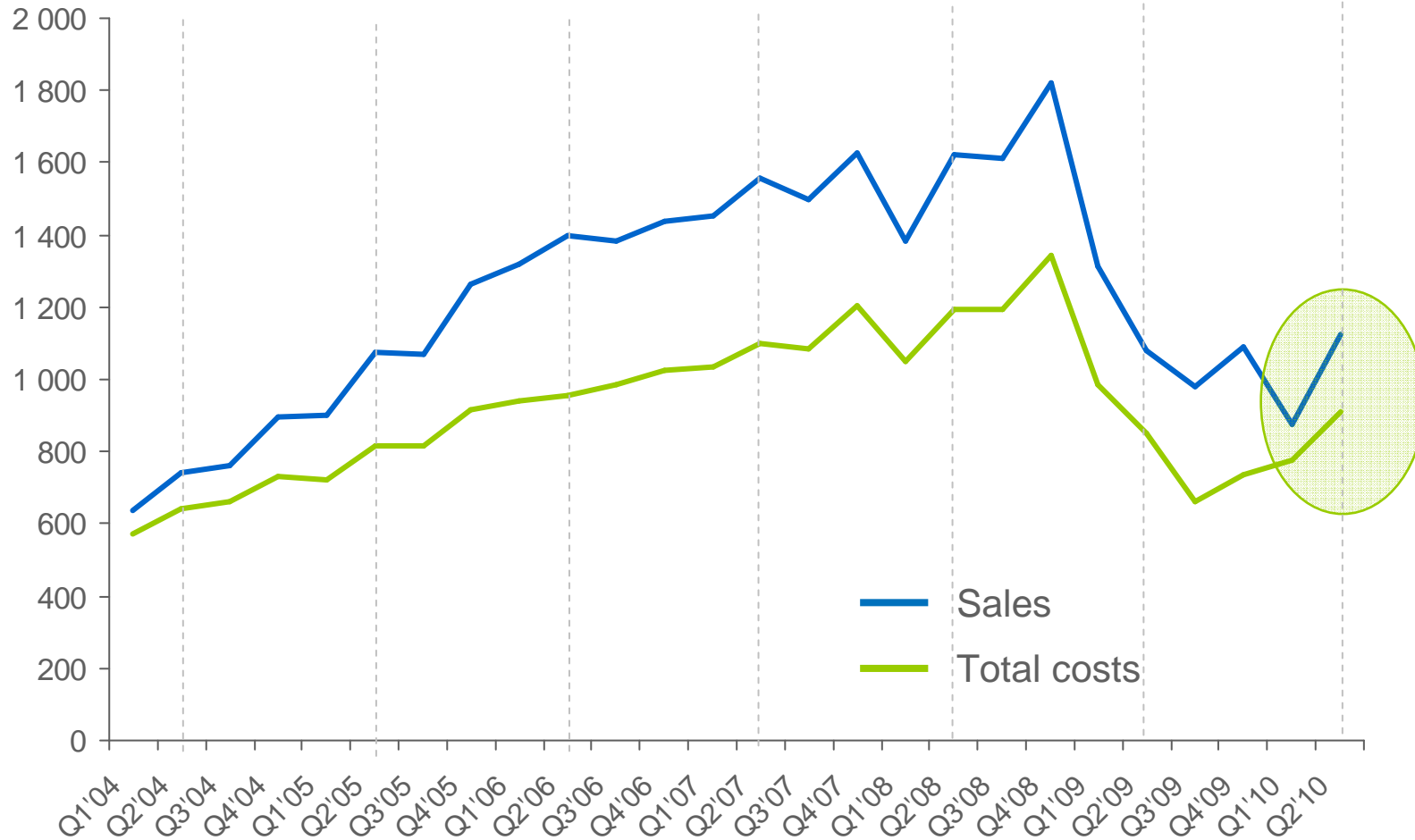
# Strong increase in volumes allowing better cost absorption

- Increased plant utilisation in US and Brazil
- Recovery of hours worked below the recovery of volume
- Continued cost savings efforts
  - “Cap Ten” cost savings programme ahead of target
  - Streamlining measures in Europe



# Flexibility: Total costs

€ million



# EBITDA

	Q2 2010	Q1 2010	% change vs Q1'10	H1 2010	H1 2009	% change vs H1'09
<b>Sales</b>	<b>1,121.8</b>	<b>877.4</b>	<b>27.9%</b>	<b>1,999.2</b>	<b>2,395.0</b>	<b>-16.5%</b>
Cost of sales <sup>1</sup>	<b>-720.4</b>	<b>-613.6</b>	<b>17.4%</b>	<b>-1,334.0</b>	<b>-1,566.9</b>	<b>-14.9%</b>
As % of sales	64.2%	69.9%		66.7%	65.4%	
Selling, general and administrative costs <sup>1</sup>	<b>-127.0</b>	<b>-108.4</b>	<b>17.2%</b>	<b>-235.4</b>	<b>-234.8</b>	<b>0,3%</b>
As % of sales	11.3%	12.4%		11.8%	9.8%	
Other income (expense), net	<b>-10.0</b>	<b>-7.0</b>		<b>-17.0</b>	<b>-15.5</b>	
<b>EBITDA</b>	<b>264.4</b>	<b>148.4</b>	<b>78.2%</b>	<b>412.8</b>	<b>577.8</b>	<b>-28.6%</b>

<sup>1</sup> Before depreciation and amortization

# Net income

€ million	Q2 2010	Q1 2010	% change vs Q1'10	H1 2010	H1 2009	% change vs H1'09
<b>EBITDA</b>	<b>264.4</b>	<b>148.4</b>	<b>78.2%</b>	<b>412.8</b>	<b>577.8</b>	<b>-28.6%</b>
Depreciation industrial assets	-43.4	-40.5		-83.9	-71.3	
Other (amortization, impairment & restructuring)	-12.6	-9.2		-21.8	-33.4	
<b>Operating Income</b>	<b>208.4</b>	<b>98.7</b>	<b>111.1%</b>	<b>307.1</b>	<b>473.1</b>	<b>-35.1%</b>
Financial Income	-3.7	-5.8		-9.5	+7.4	
Income tax	-72.0	-28.7		-100.7	-155.0	
Net income of equity affiliates	3.4	2.7		6.1	4.3	
<b>Total Net Income</b>	<b>136.1</b>	<b>66.9</b>	<b>103.4%</b>	<b>203.0</b>	<b>329.8</b>	<b>-38.4%</b>
Minority interests	10.2	6.1		16.3	18.7	
<b>Net Income, Group share</b>	<b>125.9</b>	<b>60.8</b>	<b>107.1%</b>	<b>186.7</b>	<b>311.1</b>	<b>-40.0%</b>

# Cash flow

€ million

Gross cash flow from operations

Change in gross WCR \*

**Operating cash flow**

Gross capital expenditure

Financial investments

Dividends paid

Asset disposals  
and other elements

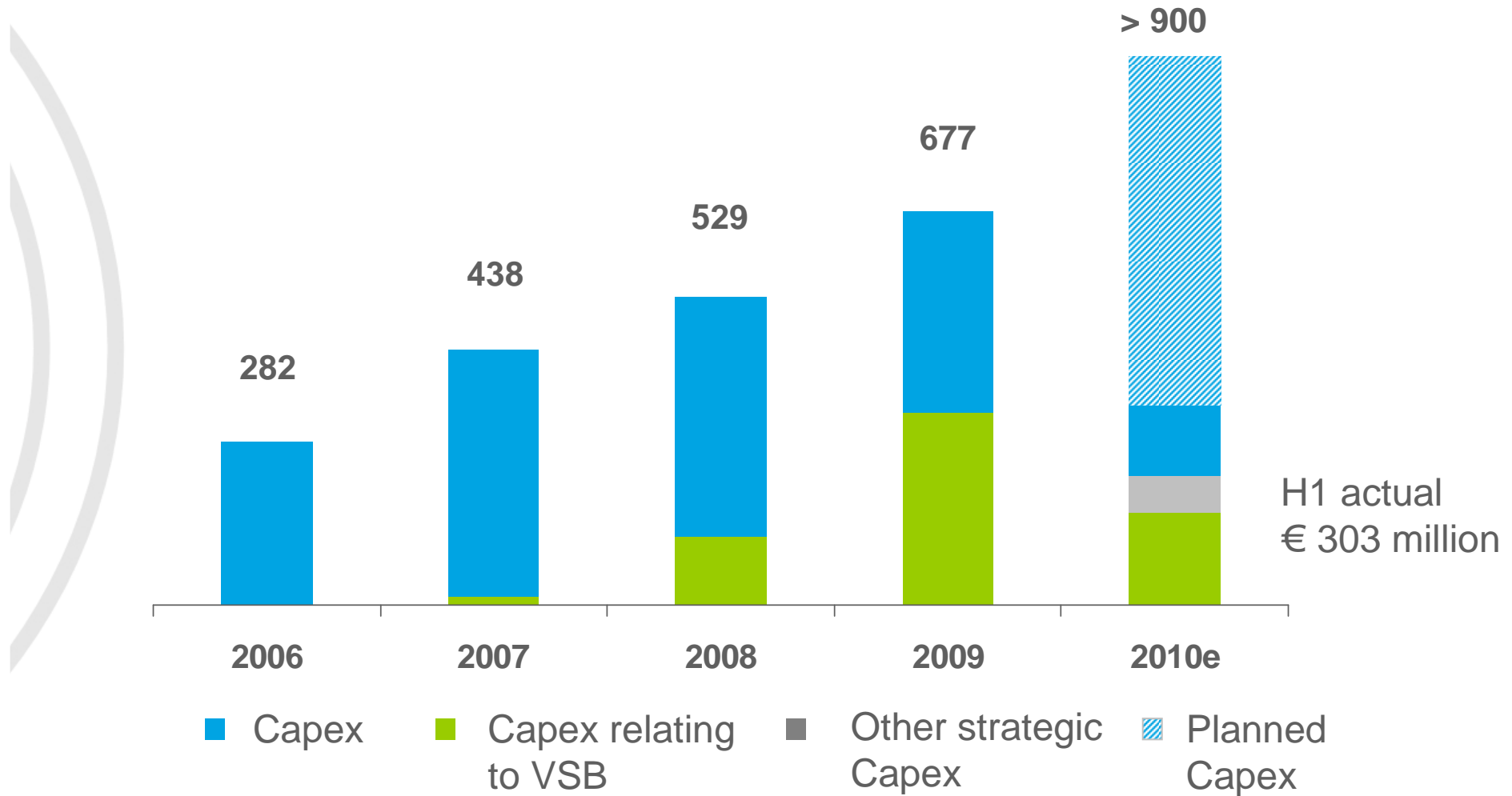
**Change in net cash**

	<b>Q2 2010</b>	<b>Q1 2010</b>	<b>H1 2010</b>	<b>H1 2009</b>
Gross cash flow from operations	239.3	84.3	323.6	472.3
Change in gross WCR *	-184.4	-1.5	-185.9	+261.1
<b>Operating cash flow</b>	<b>54.9</b>	<b>82.8</b>	<b>137.7</b>	<b>733.4</b>
Gross capital expenditure	-166.7	-136.7	-303.4	-256.5
Financial investments	-144.9	-16.2	-161.1	-8.5
Dividends paid	-79.3	-3.6	-82.9	-29.1
Asset disposals and other elements	-33.1	+21.6	-11.5	+6.0
<b>Change in net cash</b>	<b>-369.1</b>	<b>-52.1</b>	<b>-421.2</b>	<b>+445.3</b>

\* [+ decrease /- increase]

# Capital expenditure

€ million



# Other financial elements

- **Net debt of €14.5 million at 30 June 2010**
- **Liquidity profile**
  - 42% of the € 897million bank loans and other borrowings have a maturity in excess of 2 years
  - Undrawn confirmed credit lines of € 1.2 billion (maturities 2012 – 2013)
- **2009 Dividend payment in cash and shares: 30 June 2010**
  - 1.7% capital increase
  - Cash payment of € 71.9 million
- **2:1 Share split: 9 July 2010**
  - Share capital of 116,548,468 shares

# 3. Review by activity



# Market environment

## ○ Oil & Gas

- Strong OCTG demand in the US
- Increased tendering activity in the Rest of the World

## ○ Power Generation

- In OECD, conventional power plant projects (SC and USC) on hold
- New projects underway in India and China

## ○ Petrochemicals

- Several major projects under construction

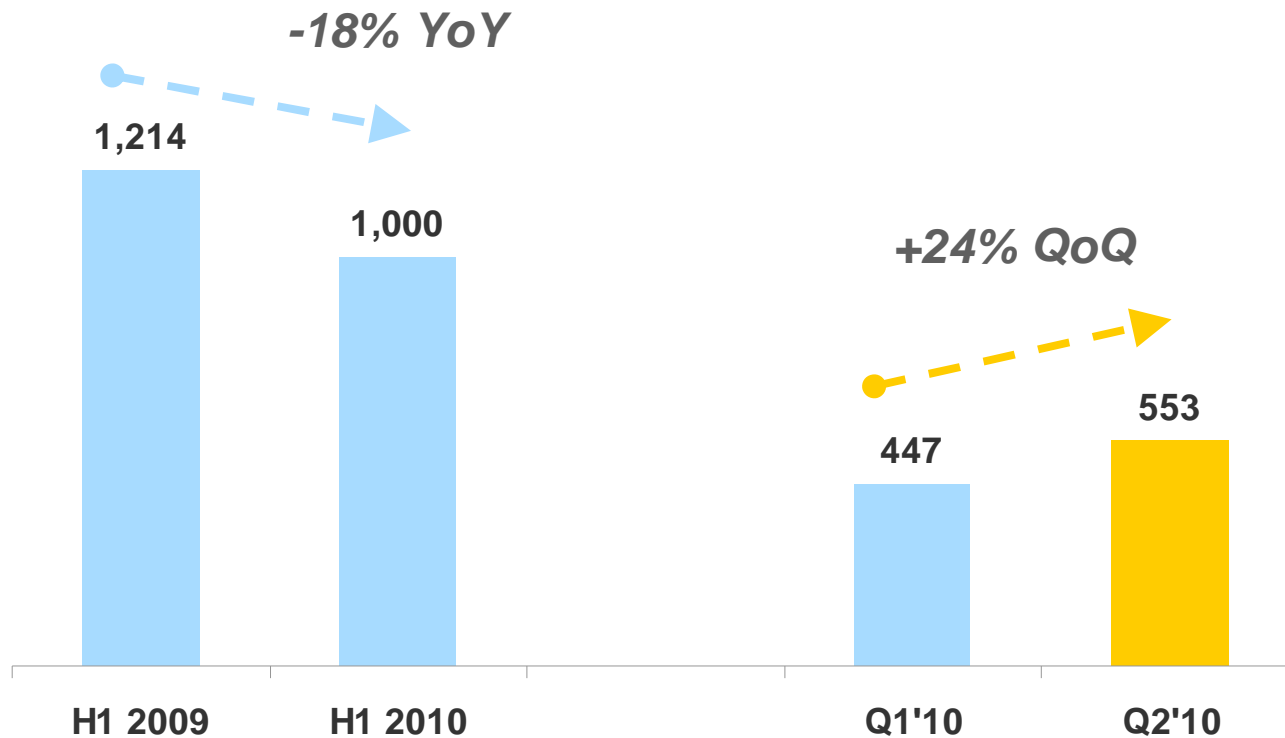
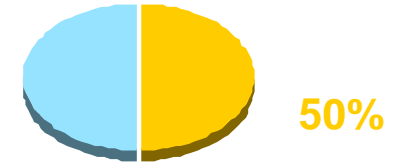
## ○ Other market segments

- Demand improves in most segments in line with economic fundamentals

# Oil & Gas

**Sales in this market**  
€ million

**% total sales H1 2010**



*Consolidated sales include PTCT from 1 July 2009, VAM Drilling Middle East from 1 October 2009 and Protools from 8 February 2010*

## ○ United States

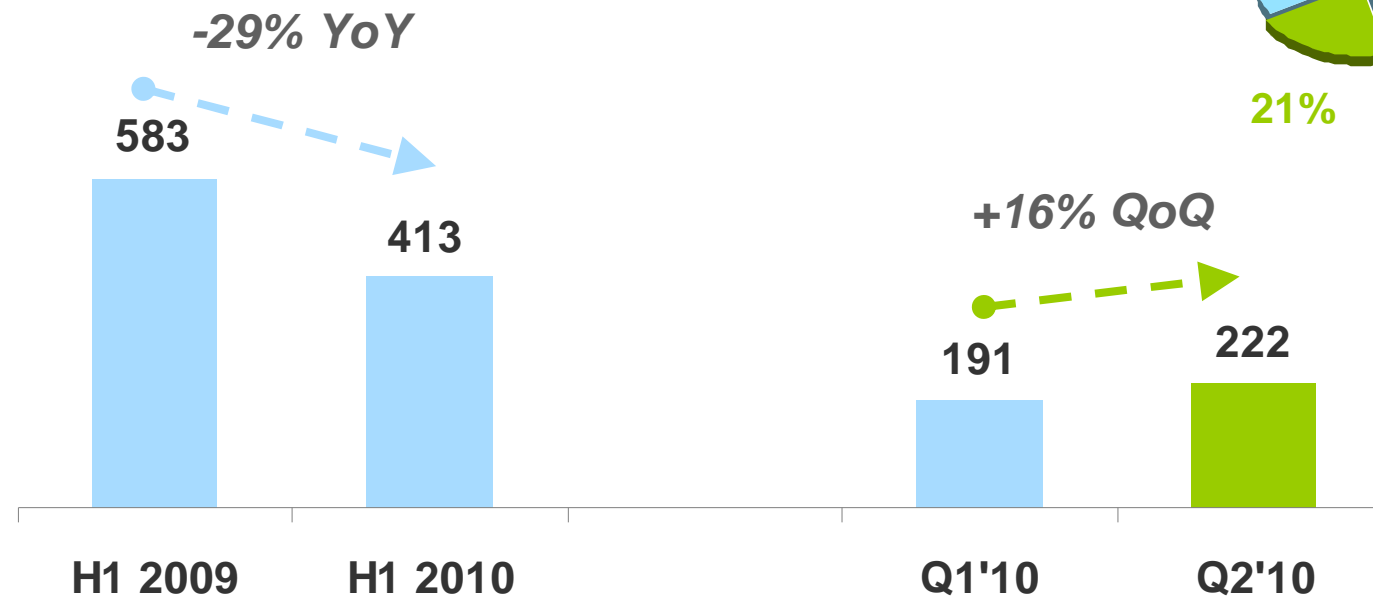
- Strong rise in drilling activity continues to benefit sales and premium threading
- Marked shift from conventional to unconventional shale gas and significant increase in oil drilling
- Distributor inventories have reduced to around 6 months of consumption
- Higher capacity utilisation of pipe mills
- Price increases applied from 1 April and 1 July 2010

## ○ Rest of the world

- OCTG bookings increased steadily through Q2 with some significant orders placed for Brazil, the Middle East and Asia
- Numerous projects for offshore line-pipes
- Prices moving upwards in a context of raw material inflation, but with a lag effect

# Power generation

**Sales in this market**  
€ million

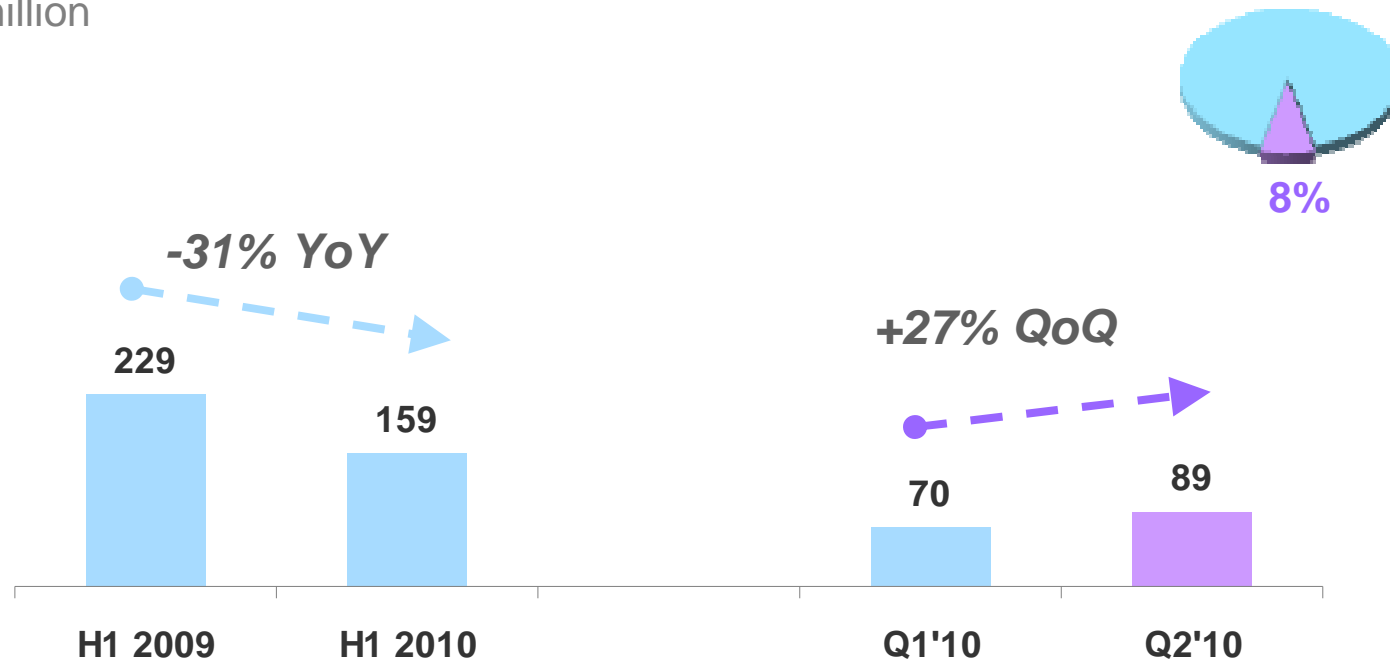


- Increased bookings in Q2 driven by distributor demand for carbon steel pipes for the maintenance market
- Low level of new SC and USC projects reduces demand for high value alloy tubes
- This will impact mix going forward

# Petrochemicals

**Sales in this market**  
€ million

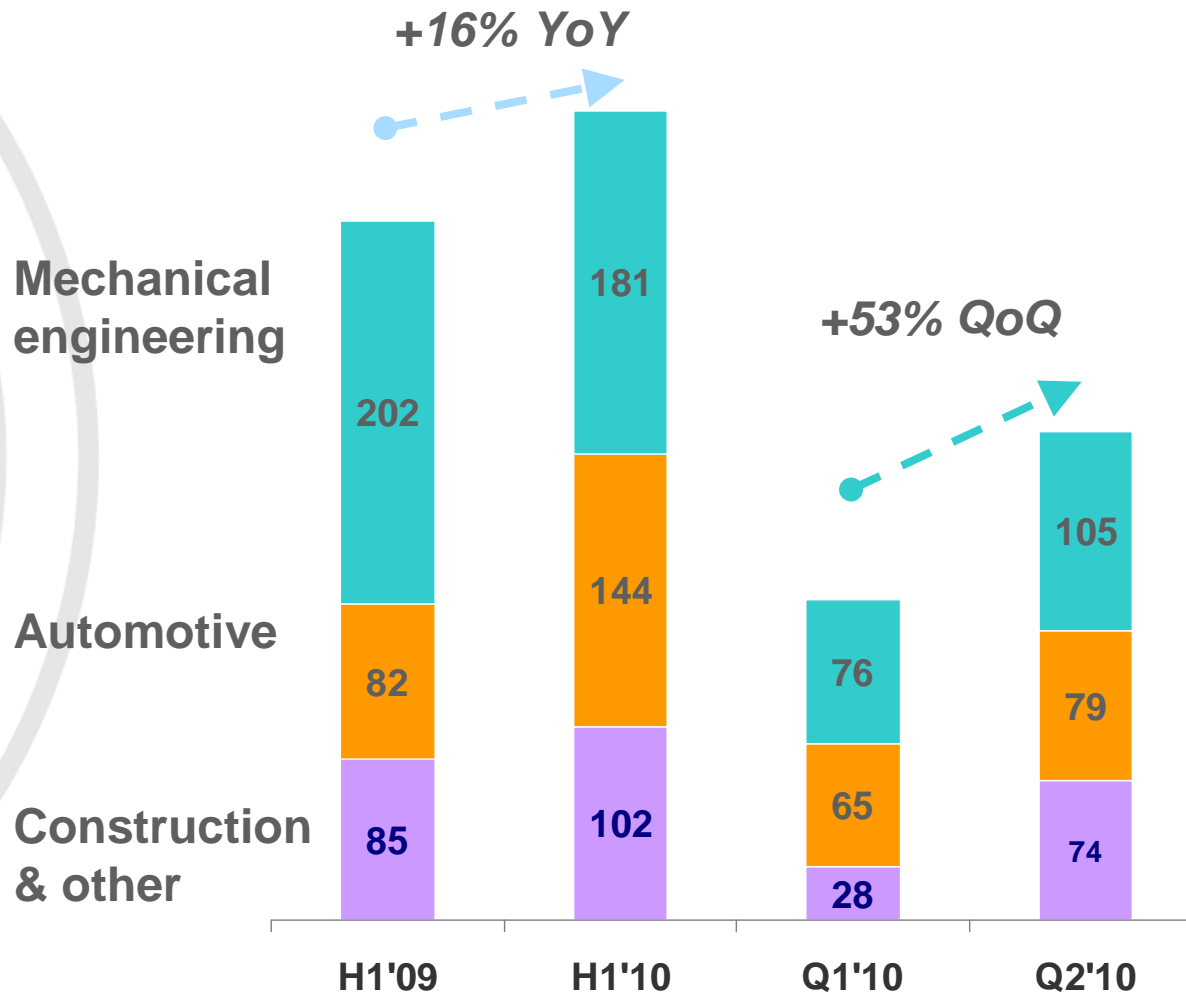
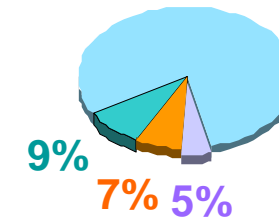
**% total sales H1 2010**



- Q2 2010 benefited from strong increase in sales to distributors
- Orders booked for major projects in North Africa and the Middle East

# Non-energy sales

% total sales H1 2010

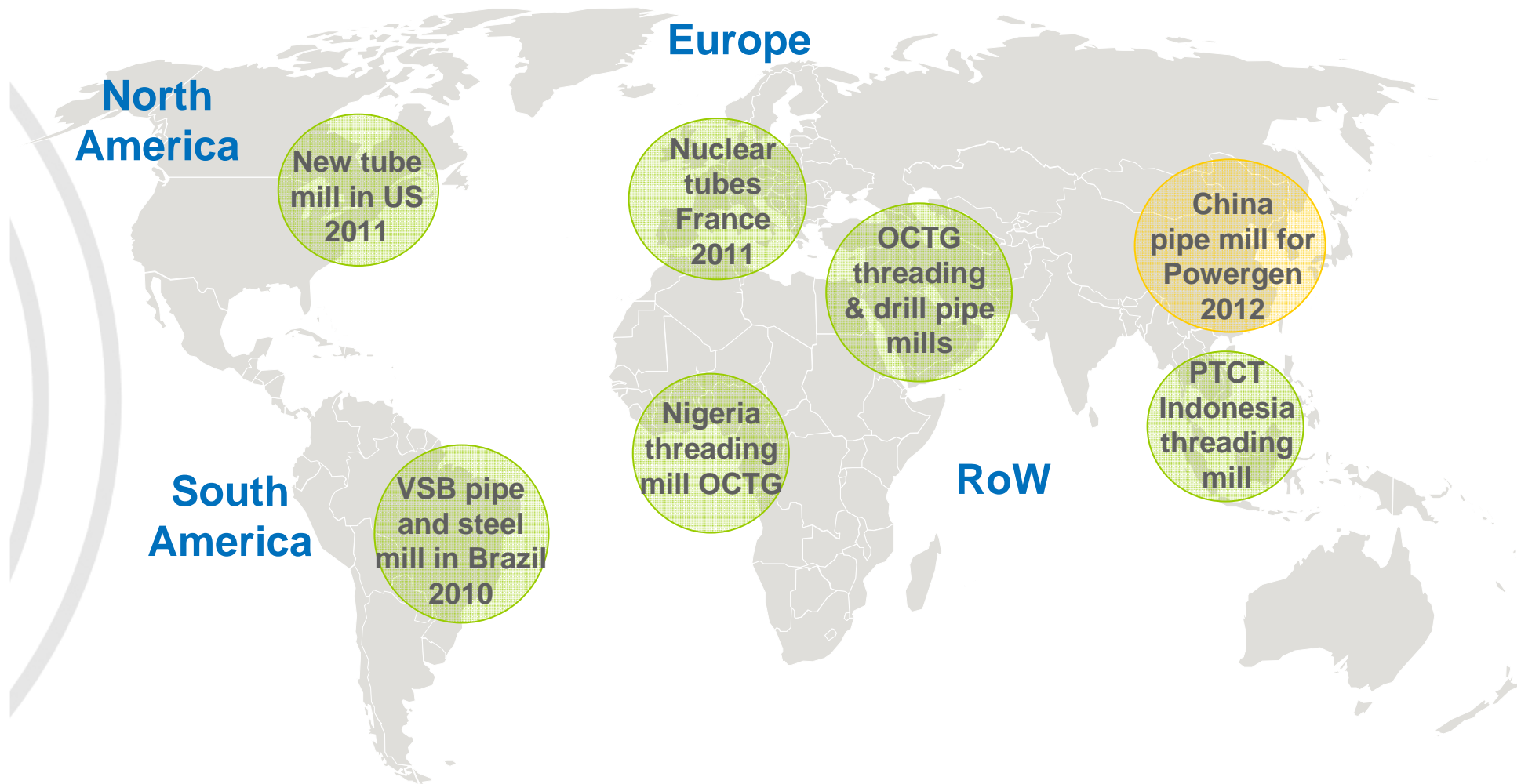


- End of destocking
- Most segments benefiting from improving economic fundamentals
- New orders from distributors amplify the effect of higher final demand

# 4. Strategy and outlook



# Vallourec Global Strategy: invest where the growth is



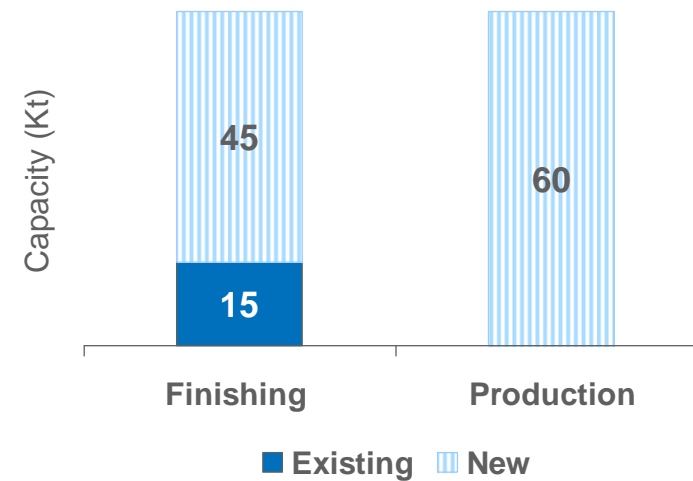
# Acquisition of Serimax: world leader in offshore welding solutions



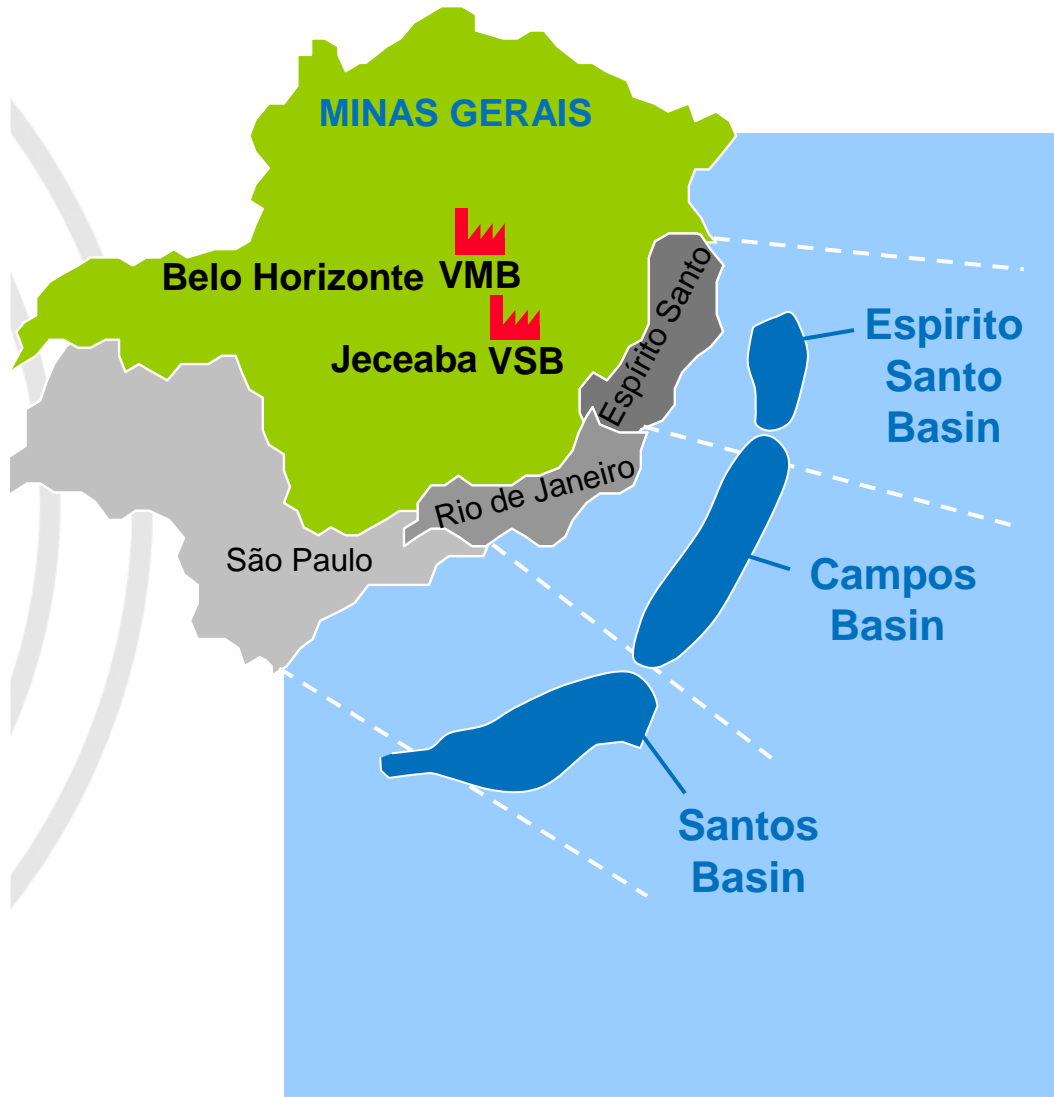
- Customized and on-site precision welding
- Extreme mechanical and technical constraints:
  - Deep offshore
  - Corrosive fields
  - Rough seas
- Sharing expertise between Vallourec and Serimax to offer integrated solutions

# Reinforcing our local offer in China for power generation

- Expansion of V & M Changzhou
- Chinese demand driven by huge development of power generation capacities
- Energy efficient proprietary production process



# Brazil – VSB start-up in 2010



*Photos July 2010*

## H2 2010 outlook

- + Positive sales trend at more modest pace than in Q2**
  - + Progressive price increases**
  - Increased raw material prices**
  - Negative price/mix effect in Powergen activity**
  - Operational expenses as VSB starts up in Brazil**
- ➔ EBITDA margin in H2 2010 will be slightly below H1'10**

# Appendices

- **World leader in premium tubular solutions primarily serving the Energy markets, as well as other industrial applications**
  - Oil & Gas, Power Generation, Petrochemicals > 80% of sales
- **18,600 employees, integrated manufacturing facilities, advanced R&D, and presence in more than 20 countries, Vallourec offers its customers innovative global solutions to meet the growing energy challenges of the 21<sup>st</sup> century**

○ <b>Key figures:</b>	<b>2009</b>	<b>H1 2010</b>
■ Production output	1,503 Kt	828 Kt
■ Sales	€ 4,465m	€ 1,999m
■ EBITDA	€ 981m	€ 413m

# World leadership positions in high value-added products

**Total seamless  
tubes market**

Co-leader  
worldwide

Approx. 9%  
of world market

**Oil & Gas**

VAM<sup>®</sup> No. 1  
worldwide in  
premium OCTG

No. 2  
worldwide in  
drilling products

**Power  
generation**

No. 1 worldwide in premium tubes

**Other  
applications**

Strong positions in Petrochemicals,  
Mechanicals and structural tubes

# Market trends: New reservoir challenges

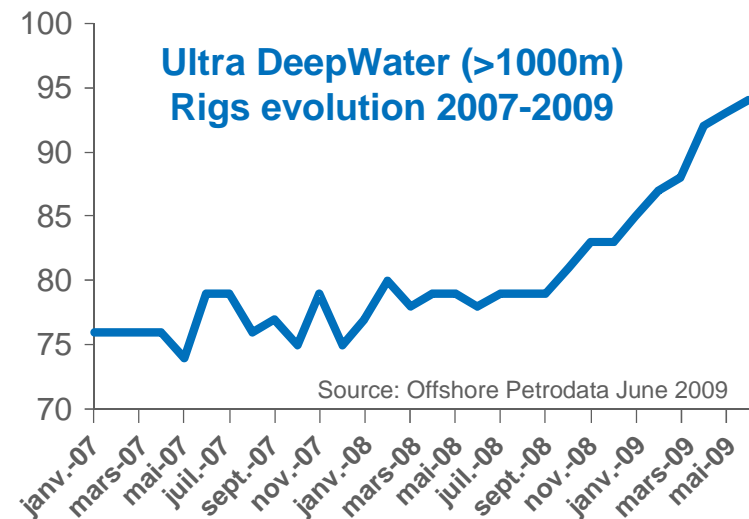
- Depletion of existing fields is a fact  
“Easy” oil has been found

New developments are  
in challenging areas:

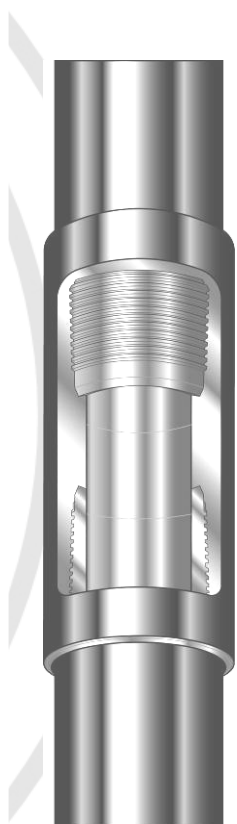
- Deeper wells
- More corrosive fields
- Directional / Horizontal wells
- More HP/HT wells
- More deep water offshore wells

- New applications are emerging:

- CO<sub>2</sub> capture & injection



# Our products for Oil & Gas



- **Oil Country Tubular Goods (OCTG)**
  - *Casing – to consolidate the well*
  - *Tubing – to convey oil & gas*
- **VAM® Premium Connections**
  - *Gas-tight metal to metal connections*
- **Drill Pipes**
- **Linepipes**
- **Risers & Flowlines**



Premium connections

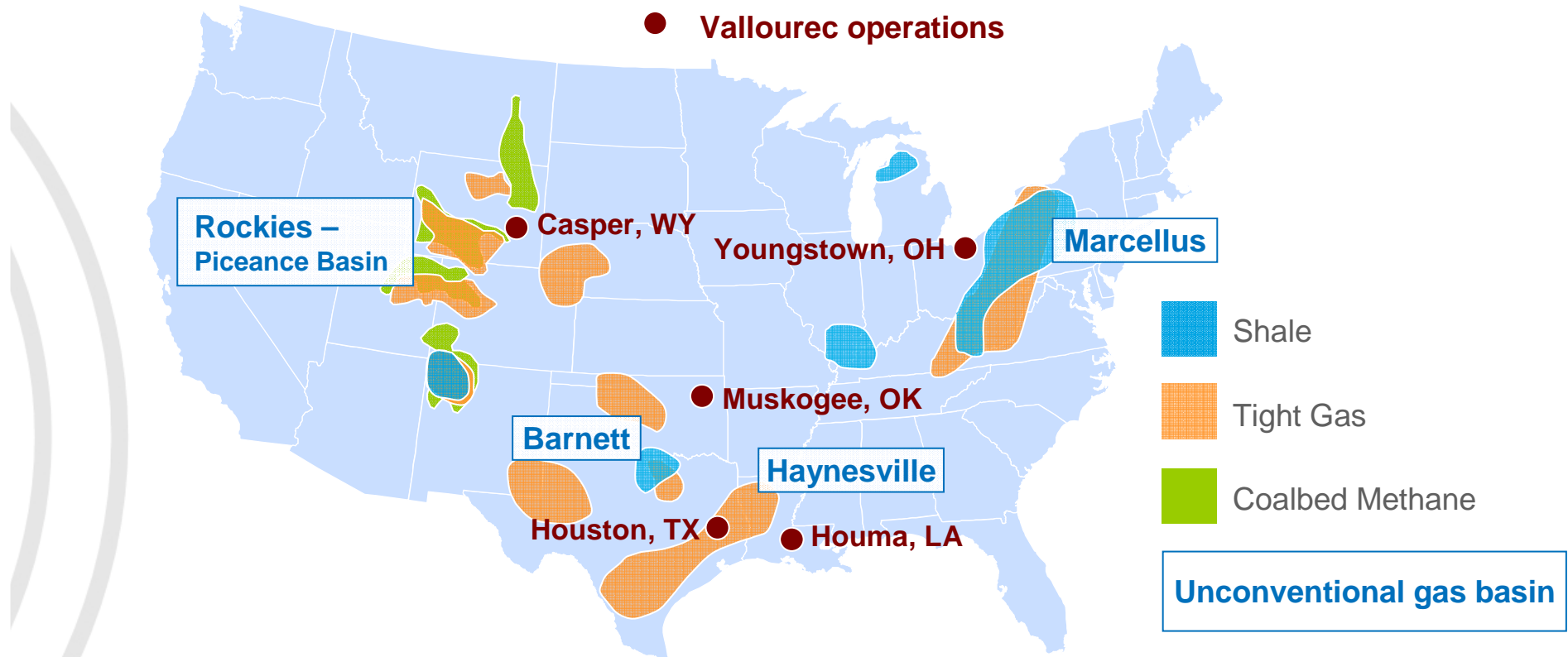
Premium Casing

Premium Tubing

Premium Casing

Accessories

# Ideally positioned to serve the US market



- Long-term relationships with distributors, large independents and international majors
- Strong reputation of VAM<sup>®</sup> products and services
- A collection of facilities located close to unconventional gas fields

# Strengthening our local presence in the Middle East



- Regional sales offices in Dubai and Egypt

▲ **VAM Drilling Middle East**  
*Local supply of drilling products and services*  
*Dubai - October 2009*

▲ **Protocols, Abu Dhabi**  
*Acquisition of the main producer of drilling accessories in the Middle East – February 2010*

▲ **Saudi Arabia**  
*New threading workshop in Dammam*  
*Start-up in Q2 2011*

# VAM Global Solutions

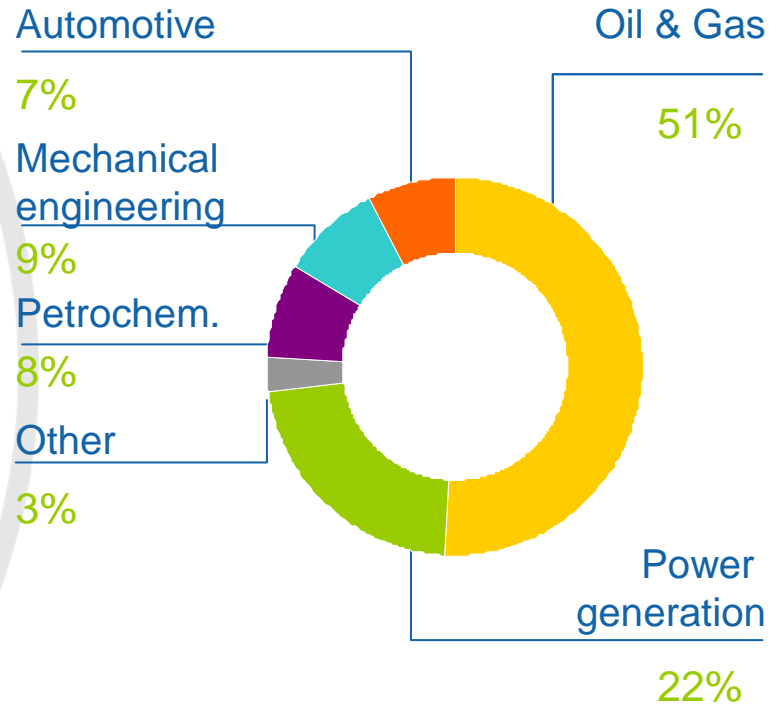




**Leader in Premium Tubular Solutions**

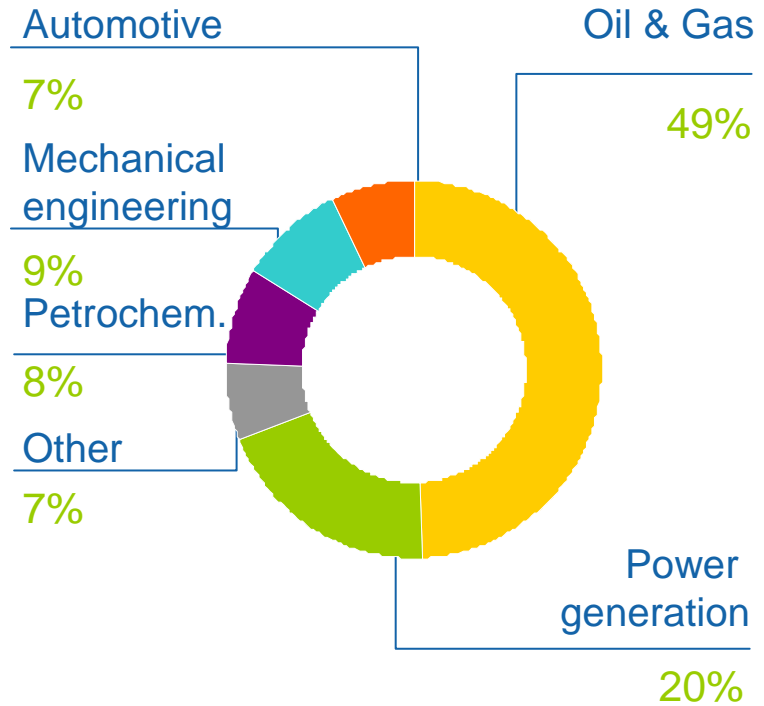
# Sales by application

**Q1 2010**  
Sales = € 877 m



Total Energy\*: 81% of sales

**Q2 2010**  
Sales = € 1 122 m



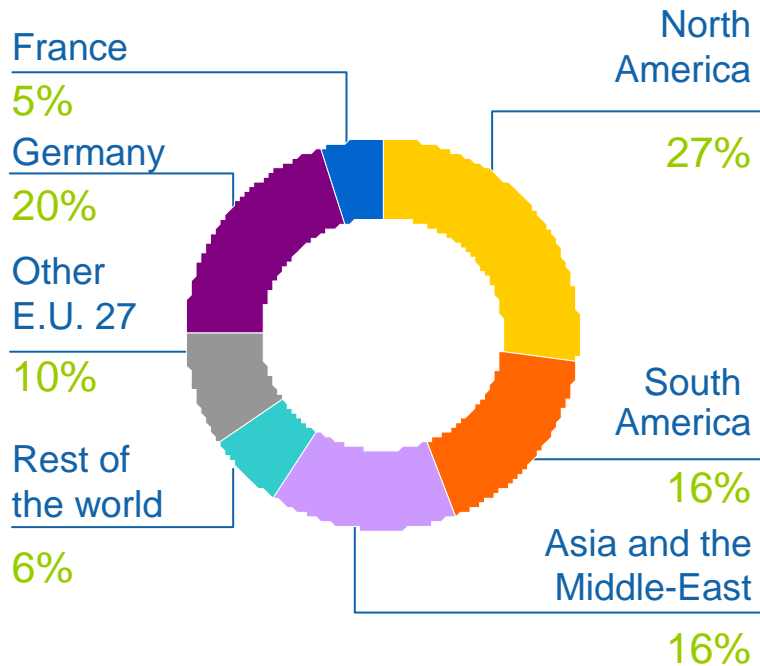
Total Energy\*: 77% of sales

\* Total Energy = Oil & Gas + Power generation + Petrochem

# Sales by geographic region

H1 2009

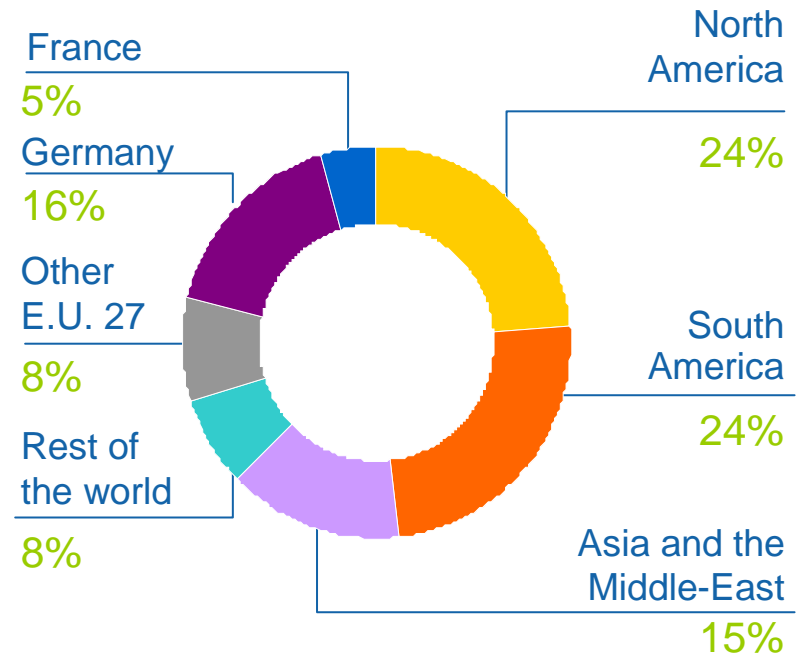
Sales = € 2,395 m



Non-E.U.:65% of sales

H1 2010

Sales = € 1,999 m

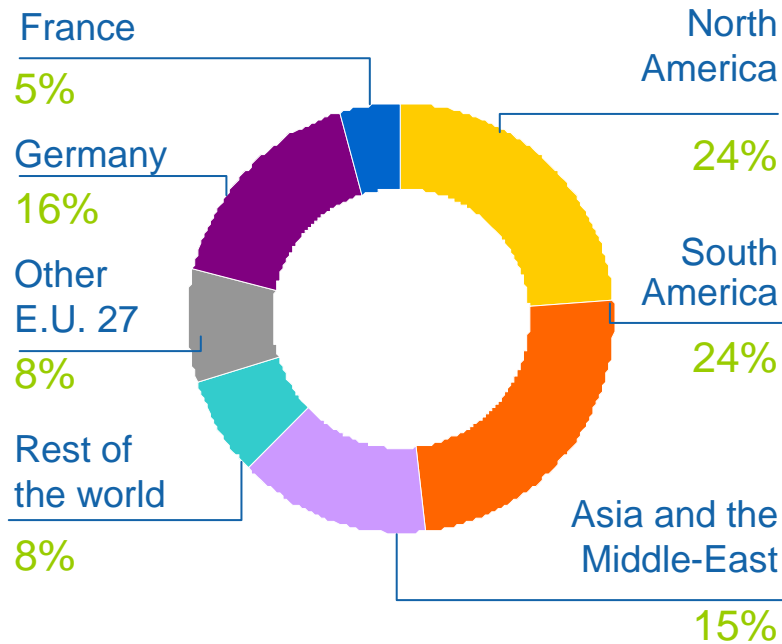


Non-E.U.:71% of sales

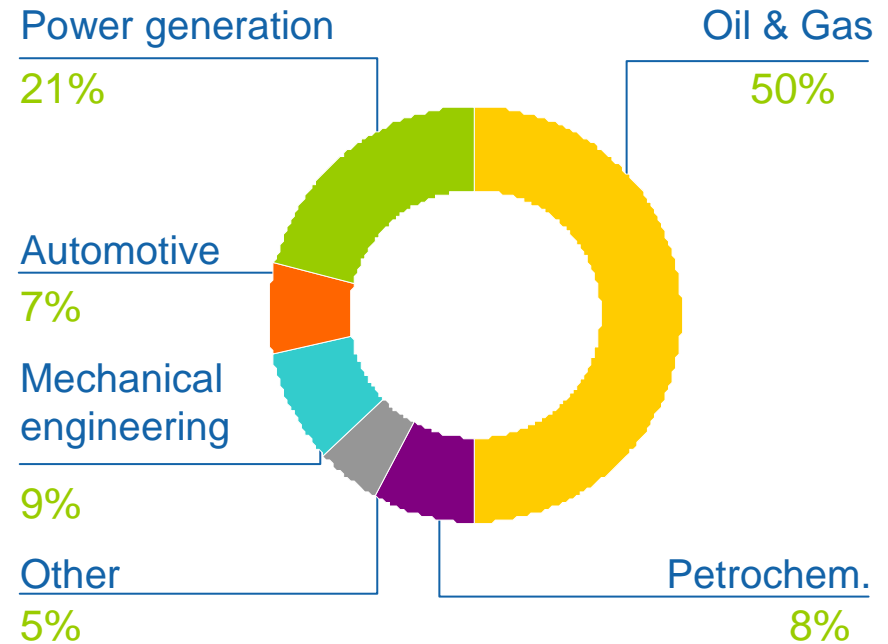
\* Non-E.U. = total world – E.U. of 27 countries

# H1 2010 sales by geographic region and by application

H1 2010 Sales = € 1,999 m



Non-E.U.\*: 71% of sales



Total Energy\*: 79% of sales

\* Non E.U. = Total – 25 E.U. countries in 2007, 27 E.U. countries in 2008

\* Total Energy = Oil & Gas + Power generation + Petrochem

# Balance sheet items

€ million

	31/12/09	30/06/10		31/12/09	30/06/10
Non current assets	3,296.4	4,005.3	Shareholders' equity	3,860.5	4,272.0
Inventories and work in progress	927.2	1,135.6	Minority interests	241.5	285.4
Trade receivables	612.0	805.1	Equity capital	4,102.0	4,557.4
Financial instruments	23.7	38.6	Provisions and deferred tax	406.0	443.3
Other current assets	152.9	162.1	Bank debt	751.1	897.1
Cash & cash equivalents	1,157.8	882.6	Financial instruments	29.5	145.5
			Trade payables	482.8	552.7
			Other current liabilities	398.6	433.3
	<u>6,170.0</u>	<u>7,029.3</u>		<u>6,170.0</u>	<u>7,029.3</u>

	31/12/09	30/06/10
Net debt	€ -406.7 m	€ 14.5 m
Net debt / equity	-9.9%	0.3%

# VALLOUREC

*First half 2010 results*

