

# Vallourec

**Philippe CROUZET**

*Chairman*

*of the Management Board*

***Exane BNP Paribas  
European Seminar***



## 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.

- **Our strengths**
- **Our priorities**
  - Premium offer for the energy markets
  - Competitiveness and growth
  - Products, services and solutions
  - Innovation and R & D

- **Our strengths**

- **Our priorities**

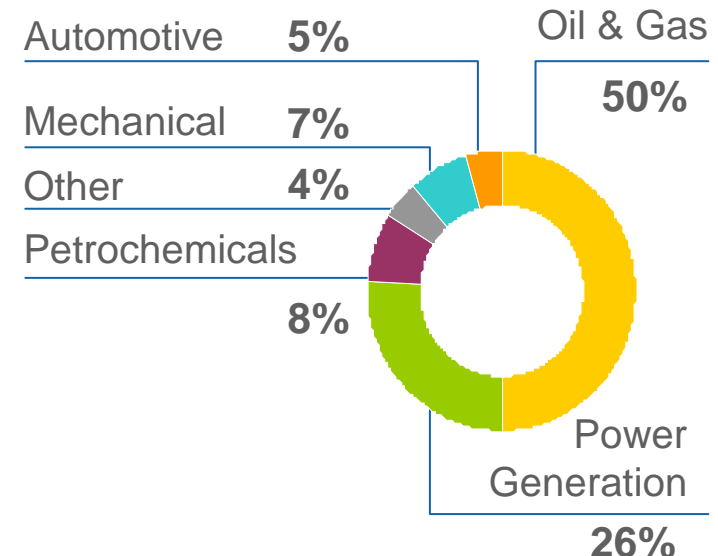
- Premium offer for the energy markets
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# Vallourec's strengths

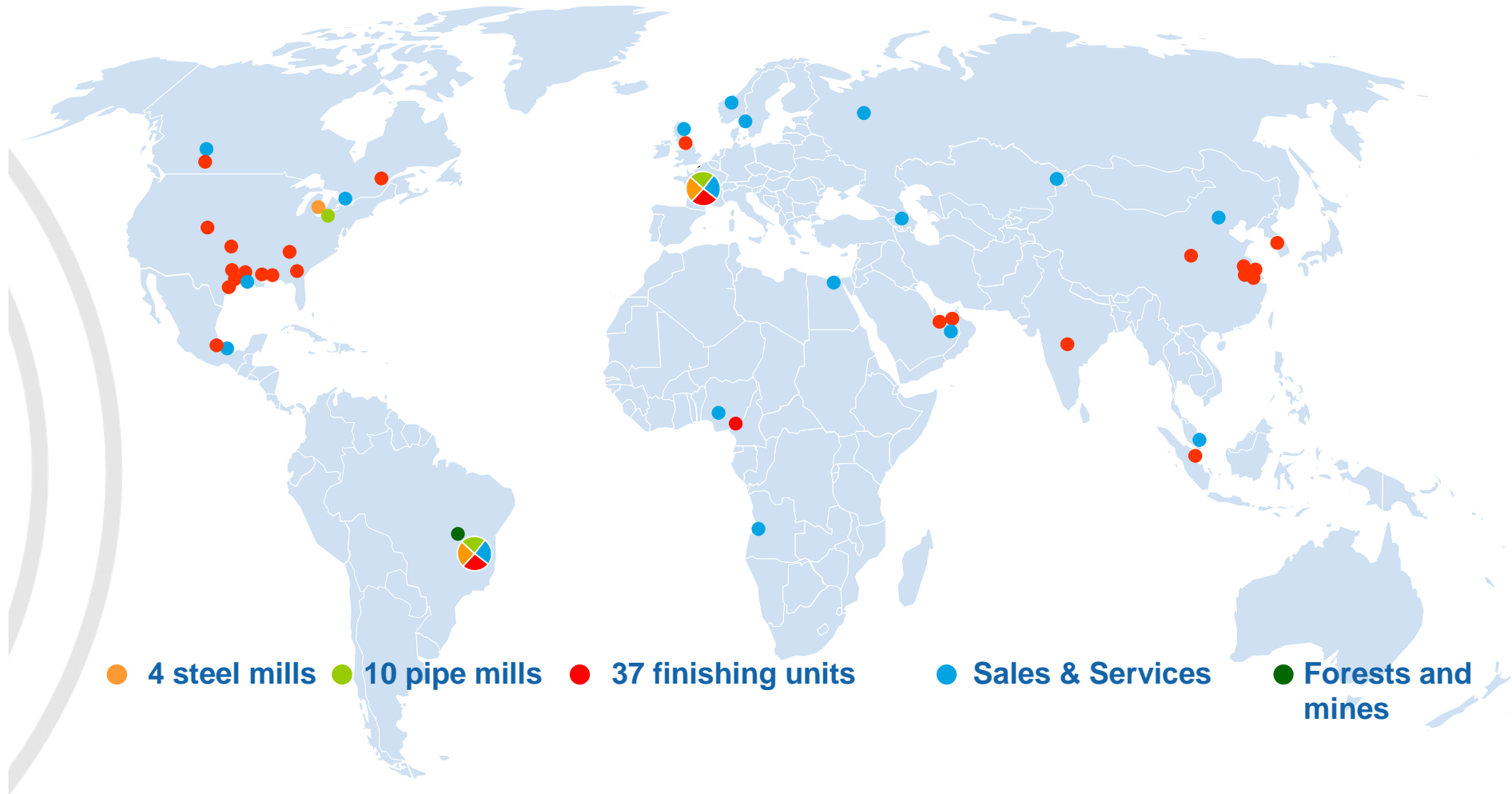
- World leader in premium tubular solutions primarily serving the Energy markets, as well as other industrial applications
  - Oil & Gas, Power Generation, Petrochemicals > 80% of sales
  
- Integrated manufacturing facilities, advanced R & D and presence in more than 20 countries, Vallourec offers its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

○ Key figures 2009:

■ Production output	1,503 Kt
■ Sales	€ 4,465m
■ EBITDA	€ 981m
■ Margin	22%



# Worldwide presence



**18,600 people  
striving for excellence and innovation**

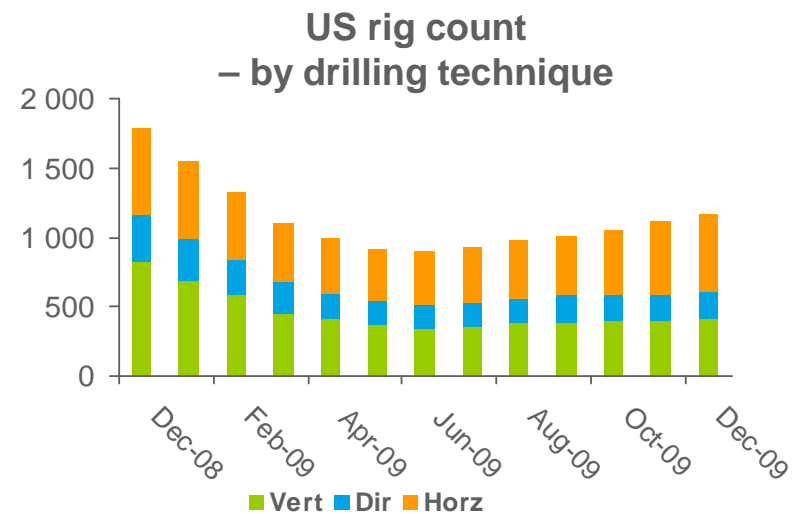
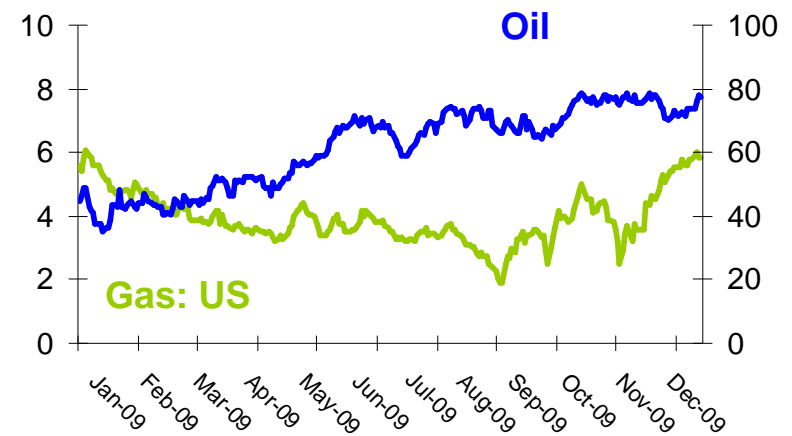
# In a challenging environment ...

	2008	2009
World GDP <sup>1</sup>	1.9%	-2.0%
Industrial production <sup>1</sup>	-0.2%	-9.1%

Global E&P expenditure <sup>2</sup>	\$457 bn	\$395 bn
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## Rig count<sup>3</sup>

United States	1,878	1,086 -42%
International (exc. N. America)	1,079	997 -8%



(1) Global Insight – March 2010

(2) Barclays Capital Global E&P Survey December 2009

(3) Baker Hughes

# ...the Group demonstrated its ability to adapt

- Against a backdrop of pressure on prices in all markets and despite a significant drop in volumes (-46%)
- High operating margin<sup>1</sup> = 22%
- Strong cash generation<sup>2</sup> = € 1,611 million
- Thanks to the Group's rapid response:
  - Operating costs -35%
  - Hours worked -23% (from 2008 peak)

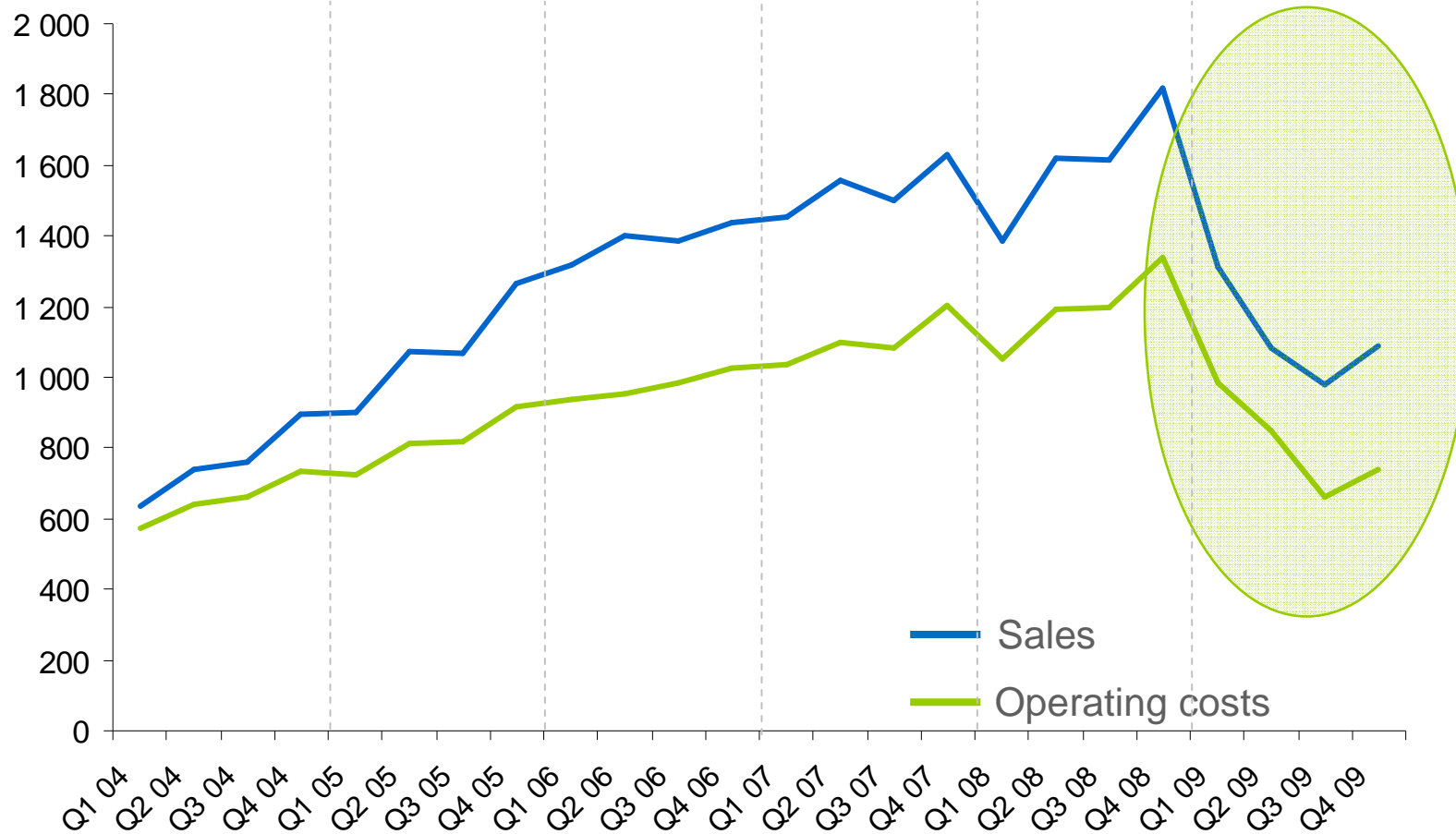
<sup>1</sup> EBITDA/sales

<sup>2</sup> Net cash flow from operating activities

# Adaptability and cost reduction

Operating costs: -35%

In € million

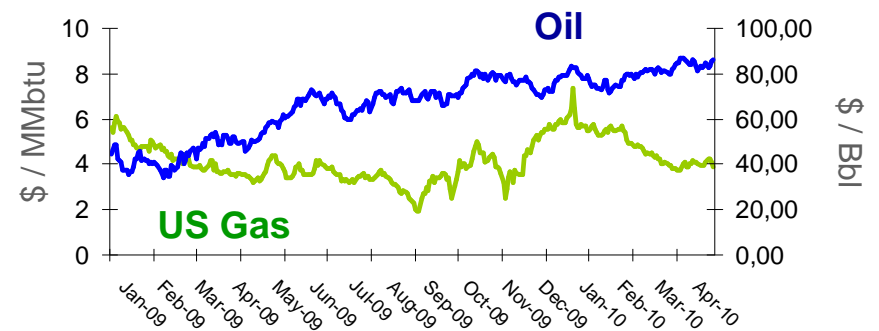


# In 2010 the economy is recovering ...

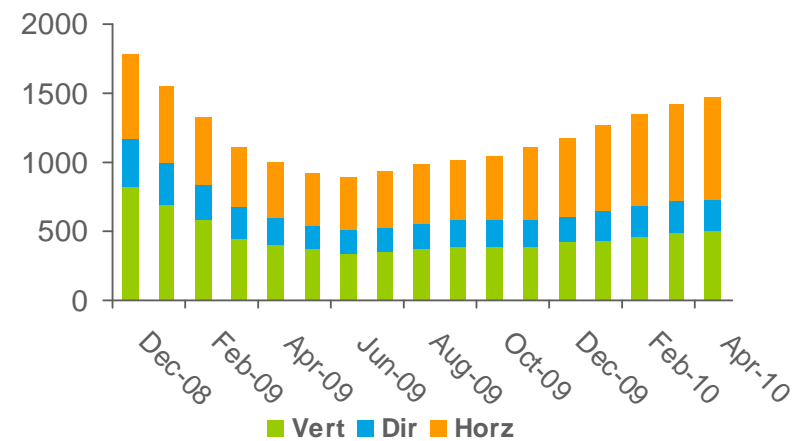
	2009	2010e
World GDP <sup>1</sup>	-2.0%	+3.2%
Industrial production <sup>1</sup>	-9.1%	+6.5%

Global E&P expenditure <sup>2</sup>	\$395 bn -14%	\$439 bn +11%
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	At 30/04/10	
<u>Rig count<sup>3</sup></u>		
United States	1,086 -42%	1,479 +36%
International (exc. N. America)	997 -8%	1,074 +8%



US rig count – drilling type split



(1) Global Insight – March 2010  
 (2) Barclays Capital Global E&P Survey December 2009  
 (3) Baker Hughes

## ... our outlook is improving

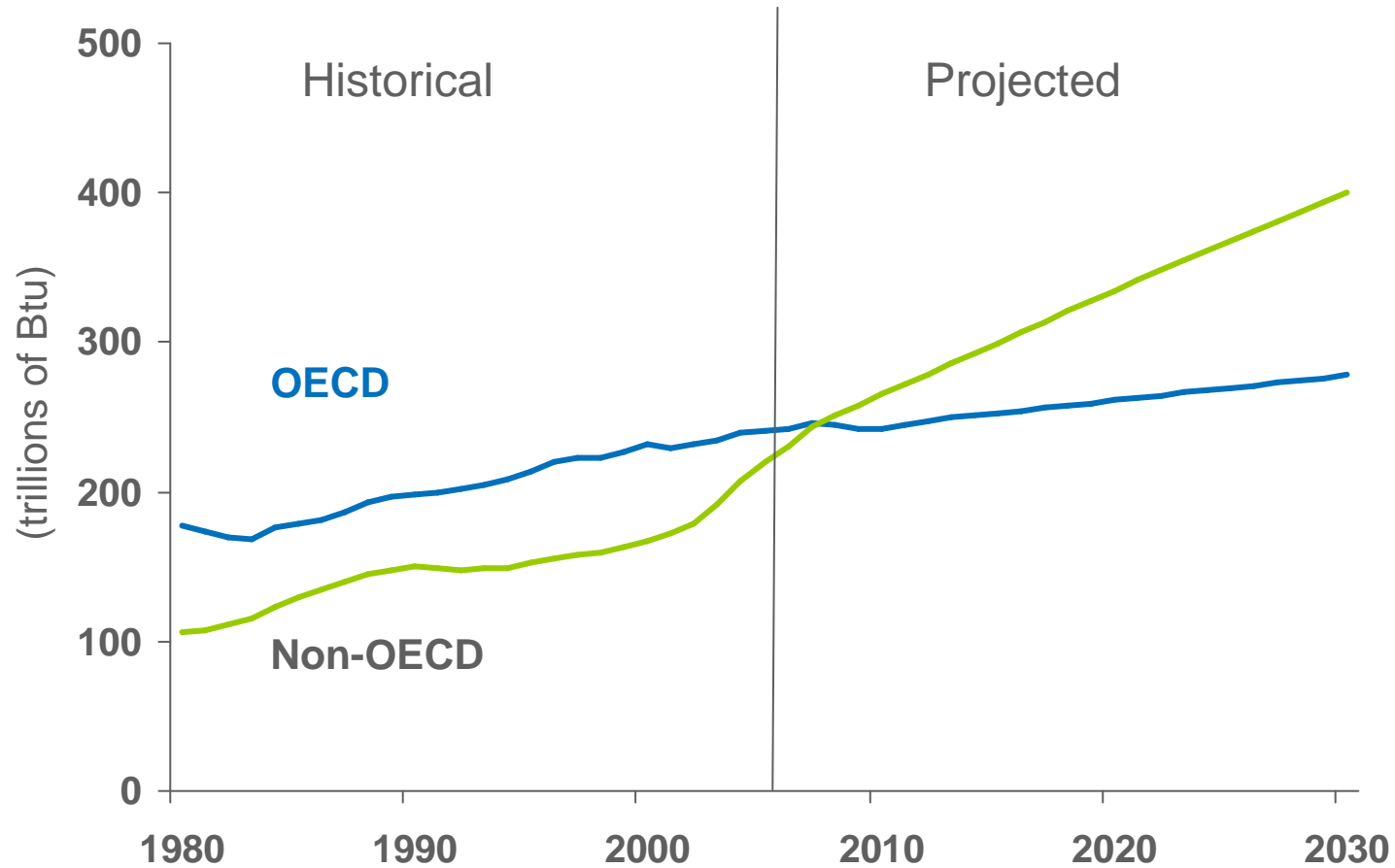
- + Low point in terms of sales and EBITDA reached during Q1
- + Significant recovery in volumes during Q2:  
Oil & Gas in the United States and non-energy activities
- + Gradual increase in selling prices on new orders
  
- Rising raw material prices
- Uncertainty as to the extent of recovery
- Persistent weakness in the Power Generation activity
  
- ➔ **H1 2010 sales and EBITDA margin slightly below those of H2 2009**

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# Energy: a growing sector

Trend in world energy consumption<sup>1</sup> (1980-2030)



(1) Source: International Energy Agency estimates – International Energy Outlook 2009

# A Premium offer to meet new technical challenges

## Oil & Gas

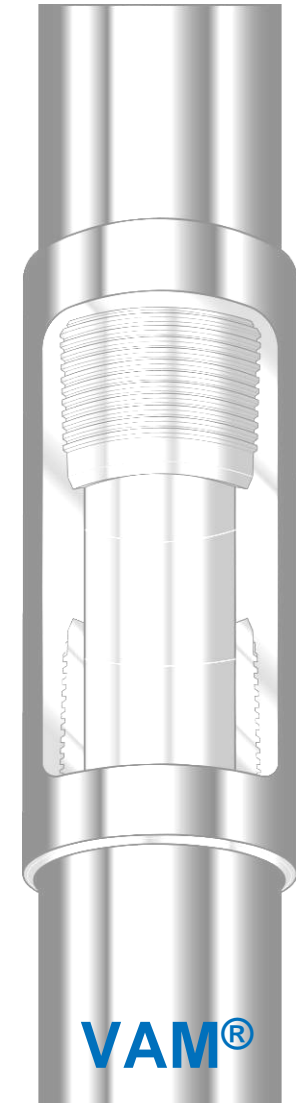
- Increasingly complex operating conditions
  - *Deeper wells, deviated/horizontal, offshore, HP/HT*
  - *Growing demand for increased safety and reliability*

## Power generation

- Improved energy yields
- Reduced CO<sub>2</sub> emissions
- New generations of nuclear power stations

## New challenges ahead

- CO<sub>2</sub> capture and storage



- Our strengths

- **Our priorities**

- Premium offer for the energy markets

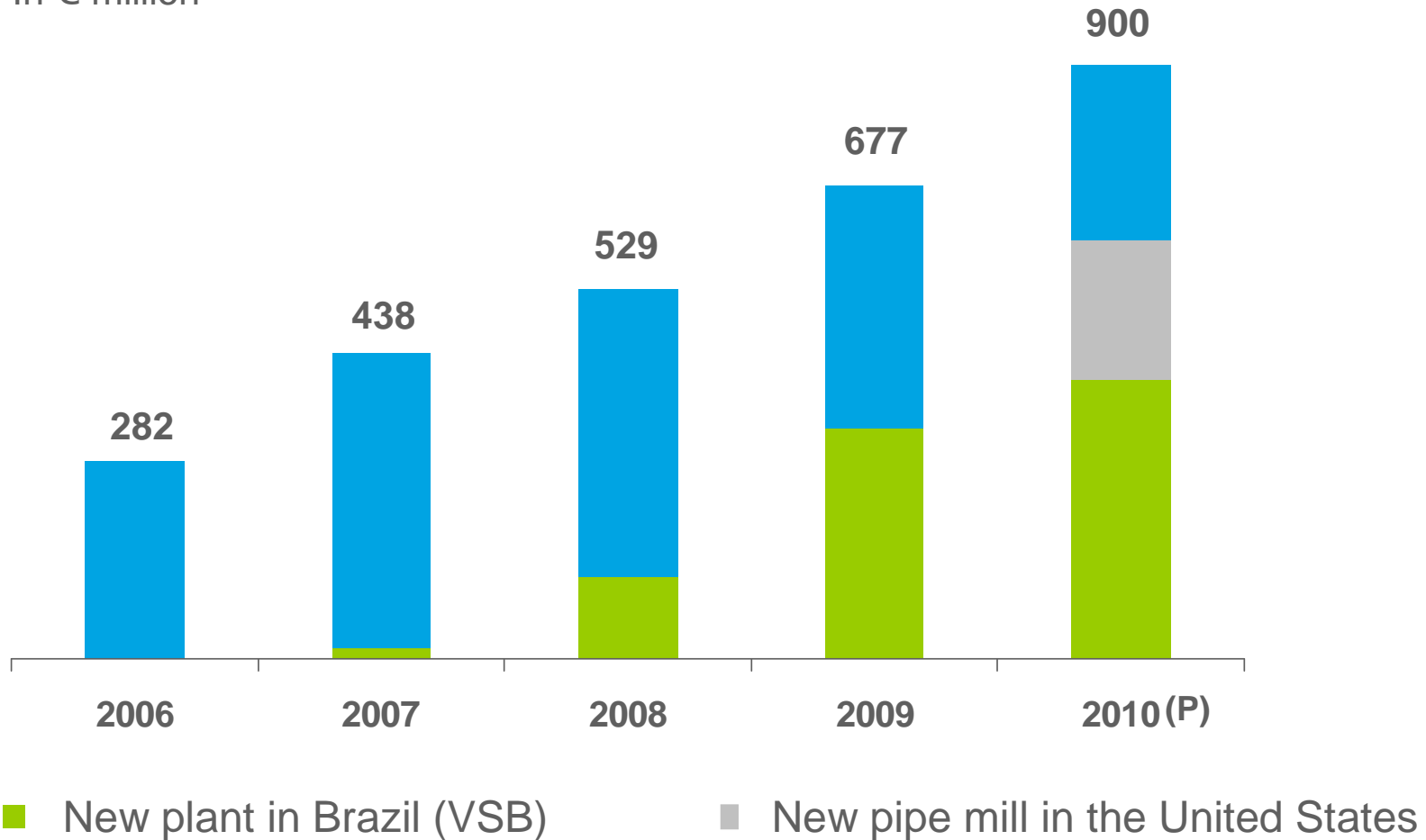
- **Competitiveness and growth**

- Products, services and solutions

- Innovation and R & D

# Capital expenditure dedicated to major strategic projects ...

In € million



# The new plant in Brazil



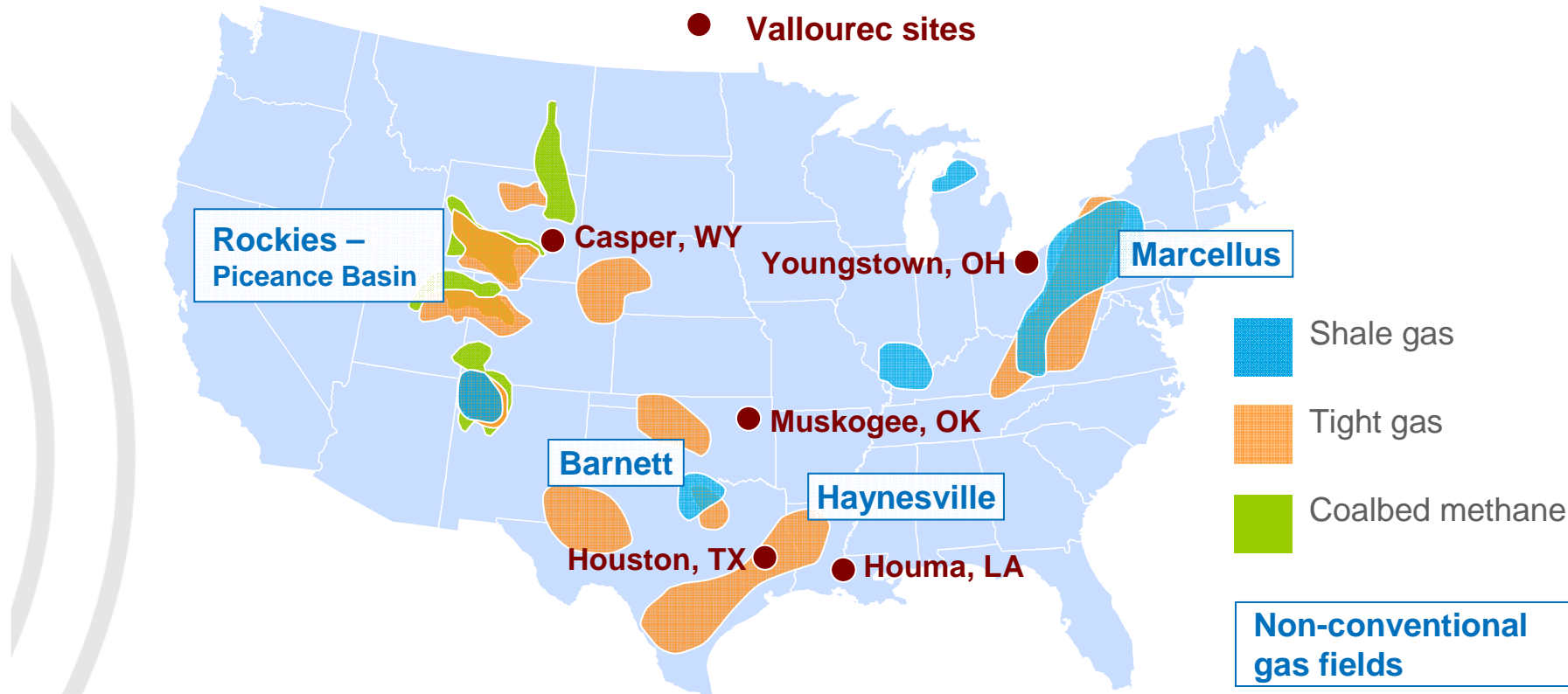
# A new pipe mill in North America

- A revolution in non-conventional gas
- A high-quality pipe mill integrated with the existing plant in Youngstown, Ohio
- Capital expenditure: USD 650 million
- Production start-up: Q4 2011



*President Barack Obama welcomed Vallourec's involvement in efforts to stimulate the economy during his visit to the Youngstown plant on 18 May 2010*

# U.S. plants are ideally located



## ○ Key dates in our U.S. presence

- 2002: V & M Star
- 2008: Atlas Bradford, TCA & Tube Alloy
- 2011: start-up of the new pipe mill

- Our strengths

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- Premium offer for the energy markets

- Competitiveness and growth

- **Products, services and solutions**

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# Industrial excellence

- A worldwide safety programme
- Modernized industrial facilities
- Improved steel production
- Expertise for all rolling technologies
- Finishing units on all continents



# Services in proximity to our customers



- Regional sales offices in Dubai and Egypt

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

▲ **Protools, 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*

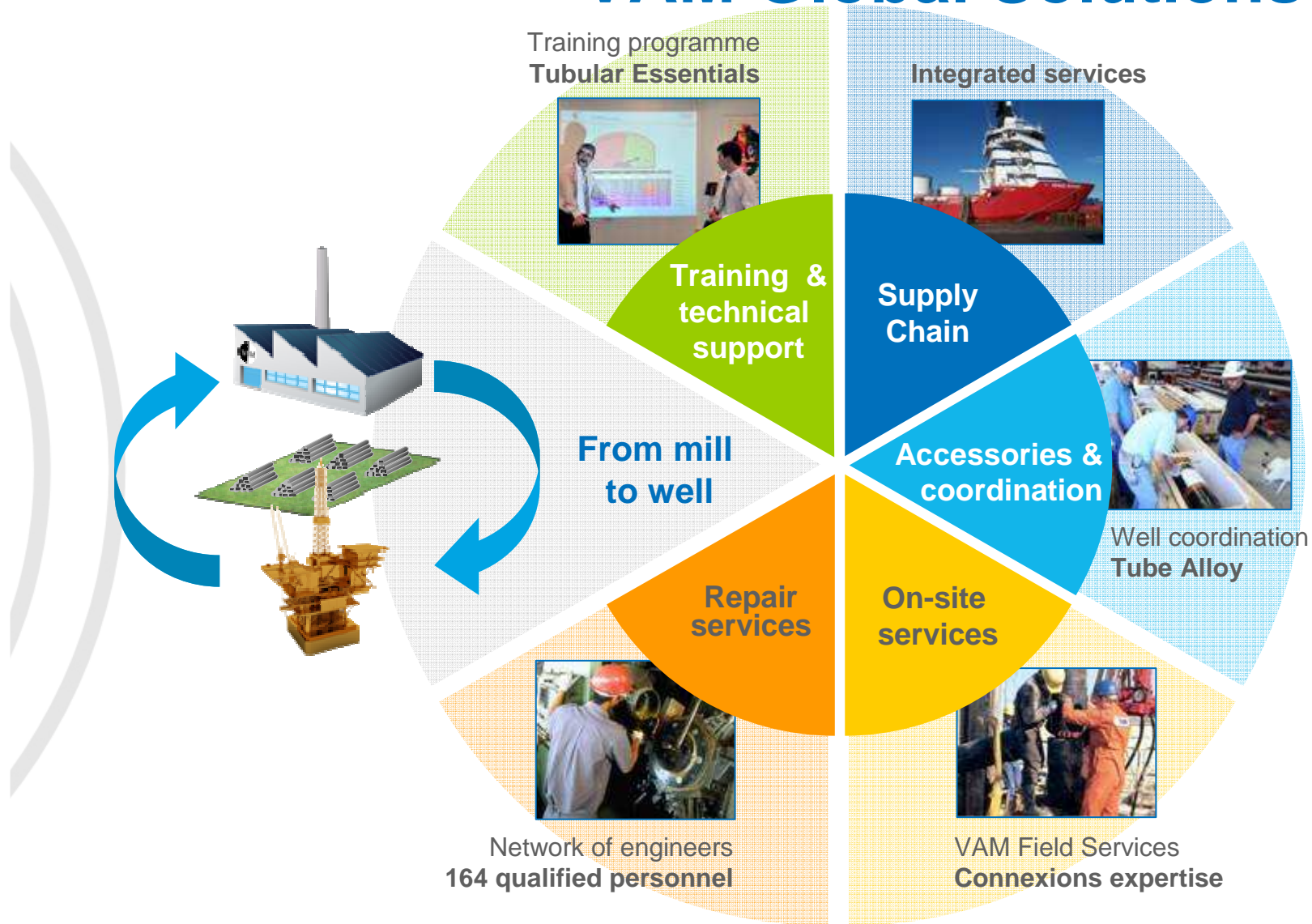
# Acquisition\* of Serimax: world leader in offshore welding solutions



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

\* Acquisition subject to approval by the relevant competition authorities

# Products, services and solutions: VAM Global Solutions' offer



- Our strengths

- **Our priorities**

- Premium offer for the energy markets

- Competitiveness and growth

- Products, services and solutions

- **Innovation and R & D**

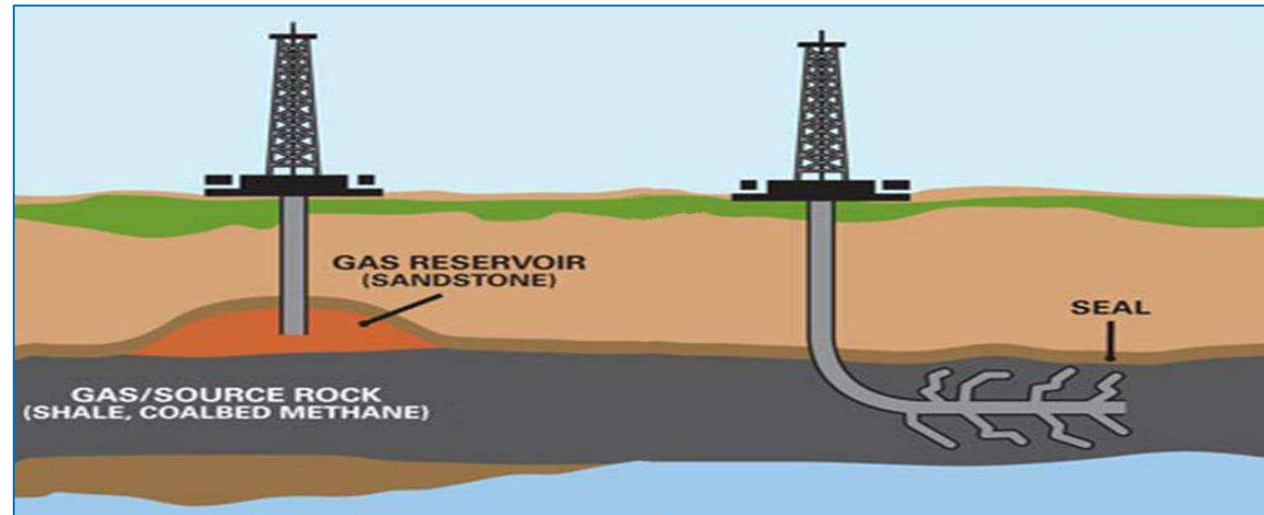
# Innovation and R & D: An integrated worldwide structure



- Improved structure – combining Technology, R & D and Innovation in a single department, TRDI
- More than 500 engineers and technicians
- 5 research centres (France, Germany, United States and Brazil)
- Budget exceeded €60 million in 2009

# Innovation and R & D: solutions for non-conventional gas

## VAM<sup>®</sup> HTF



- Vallourec's new Premium connection is particularly suited to operating so-called 'deviated' wells with long horizontal sections, due to its remarkable torque capability

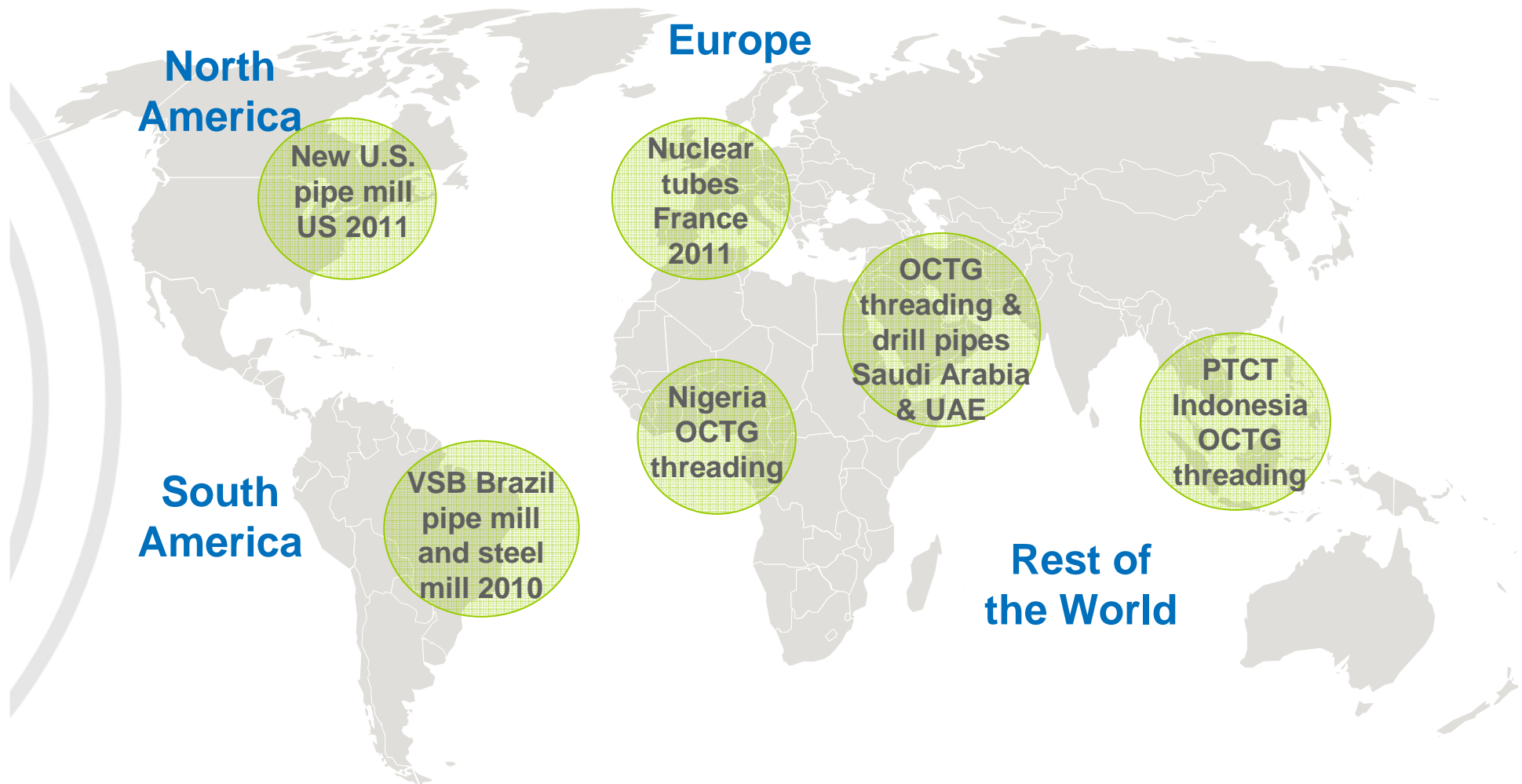
# Conclusion



# Preparing for the recovery

- More local presence
- More low cost base
- More innovative solutions

# Investing where the growth is





**Leader in Premium tubular solutions**

# Appendices



## Q1 key figures:

	Q1 2010	Q1'09	Q4'09
Sales Volume (k tonnes)	344	488 (-30%)	330 (4%)
Sales	€ 877 m	€ 1,313 m (-33.2%)	€ 1,090 m (-19.5%)
EBITDA % of Sales	€ 148.4 m 16.9%	€ 339.3 m 25.8%	€ 228.8 m 21.0%
Operating Cash flow	€ 82.8 m	€ 320.1 m	€ 420.6 m
Net debt As % of equity	€ -354.6 m -8.2%	€193.8 m 5.4%	€ -406.7m -9.9%

# EBITDA

	Q1 2010	Q4 2009	% change vs Q4'09	Q1 2009	% change vs Q1'09
<b>Sales</b>	<b>877.4</b>	<b>1,090.0</b>	-19.5%	<b>1,313.1</b>	-33.2%
Cost of sales <sup>1</sup>	-613.6	-723.8	-15.2%	-852.4	-28.0%
Selling, general and administrative costs <sup>1</sup>	-108.4	-128,4	-15.6%	-120.1	-9.7%
Other income (expense), net	-7.0	-9.0		-1.3	
<b>EBITDA</b>	<b>148.4</b>	<b>228.8</b>	-35.1%	<b>339.3</b>	-56.3%

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

## Net income

	Q1 2010	Q4 2009	% change vs Q4'09	Q1 2009	% change vs Q1'09
<b>EBITDA</b>	<b>148.4</b>	<b>228.8</b>	<b>-35.1%</b>	<b>339.3</b>	<b>-56.3%</b>
Depreciation industrial assets	-40.5	-41.2		-35.3	
Other (amortization, impairment & restructuring)	-9.2	-27.7		-15.8	
<b>Operating Income</b>	<b>98.7</b>	<b>159.9</b>	<b>-38.3%</b>	<b>288.2</b>	<b>-65.8%</b>
Financial Income	-5.8	-10.0		6.7	
Income tax	-28.7	-44.4		-95.7	
Net income of equity affiliates	2.7	-3.9		3.7	
<b>Total Net Income</b>	<b>66.9</b>	<b>101.6</b>	<b>-34.2%</b>	<b>202.9</b>	<b>-67.0%</b>
Minority interests	6.1	0.7		15.7	
<b>Net Income, Group share</b>	<b>60.8</b>	<b>100.9</b>	<b>-39.7%</b>	<b>187.2</b>	<b>-67.5%</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>Q1 2010</b>	<b>Q4 2009</b>	<b>Q1 2009</b>
	84.3	146.4	296.7
	-1.5	+274.2	+23.4
	<b>82.8</b>	<b>420.6</b>	<b>320.1</b>
	-136.7	-251.4	-126.8
	-16.2	-59.2	-8.5
	-3.6	-10.9	-22.6
	+21.6	+18.4	-9.5
	<b>-52.1</b>	<b>+117.5</b>	<b>+152.7</b>

\* [+ decrease /- increase]

# Balance sheet items

€ million

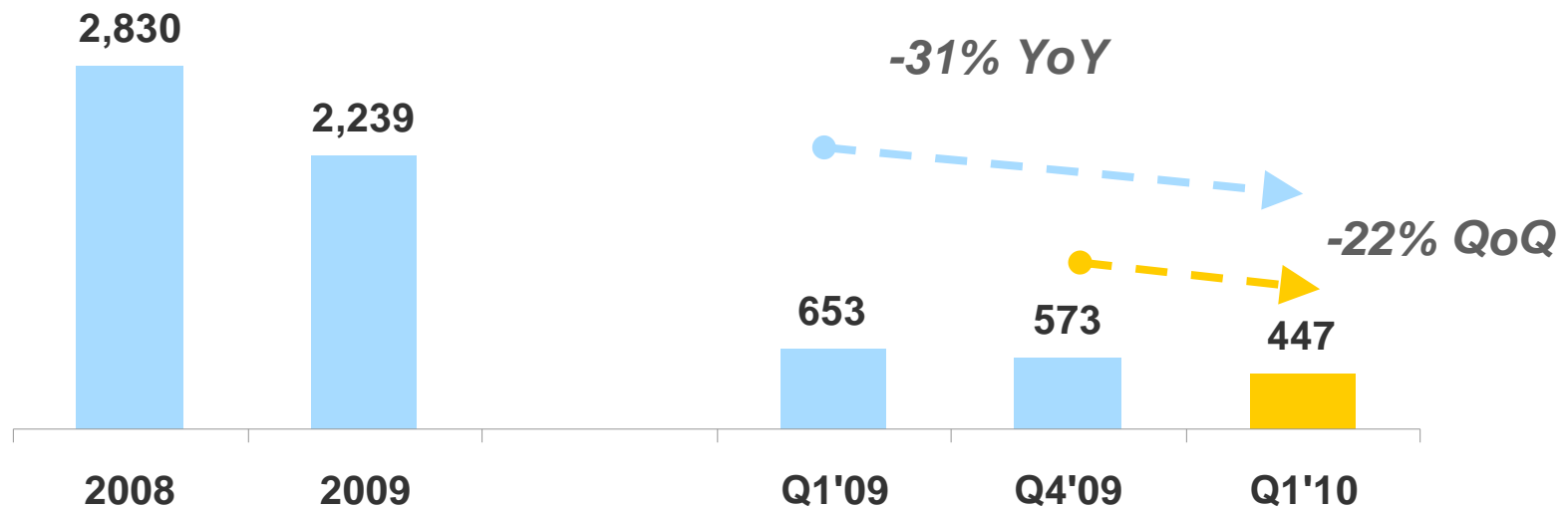
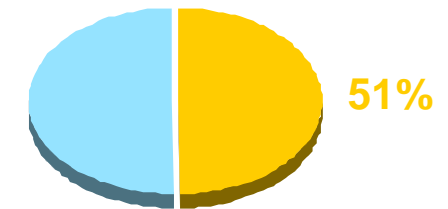
	31/12/09	31/03/10		31/12/09	31/03/10
Non current assets	3,296.4	3,523.4	Shareholders' equity	3,860.5	4,038.5
Inventories and work in progress	927.2	980.9	Minority interests	241.5	262.3
Trade receivables	612.0	630.1	Equity capital	4,102.0	4,300.8
Financial instruments	23.7	20.8	Provisions and deferred tax	406.0	425.0
Other current assets	152.9	146.0	Bank debt	751.1	850.0
Cash & cash equivalents	1,157.8	1,204.6	Financial instruments	29.5	71.6
	<u>6,170.0</u>	<u>6,505.8</u>	Trade payables	482.8	517.3
			Other current liabilities	398.6	341.1
				<u>6,170.0</u>	<u>6,505.8</u>

	31/12/09	31/03/10
Net debt	-€ 406.7 m	-€ 354.6 m
Net debt / equity	-9.9%	-8.2%

# Oil & Gas

**Sales in this market**  
€ million

**% total sales Q1 2010**



\* Consolidated sales include PTCT from 1 July 2009 and VAM Drilling Middle East from 1 October 2009

## ○ United States

- Pipe sales continued to increase sequentially, as a result of strong drilling activity for shale gas
- Distributor inventories have reduced to reasonable levels
- Higher capacity utilisation of pipe mills
- Price increase of \$100 per short ton applicable from 1 April 2010 and further increases from H2 2010

## ○ Rest of the world

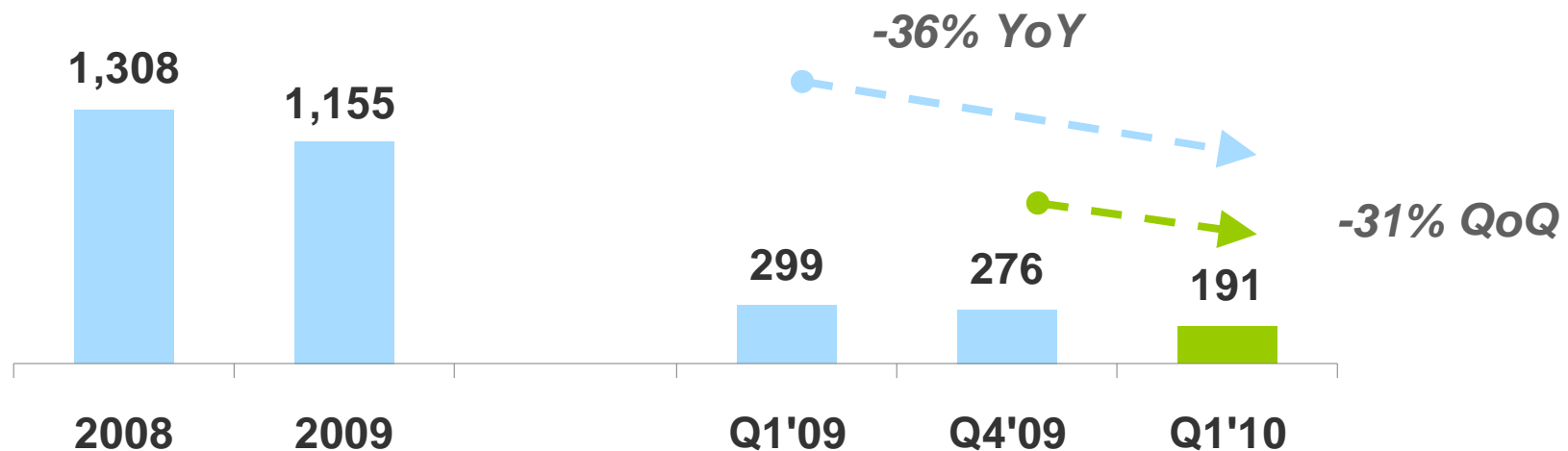
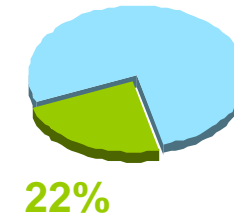
- Increased tenders with NOC's and more recently among international majors and independent oil companies (Angola, Indonesia, UK North Sea) for delivery from Q4 2010 onwards
- Prices moving upwards in a context of raw material inflation, but with a lag effect

# Power generation

## Sales in this market

€ million

% total sales Q1 2010



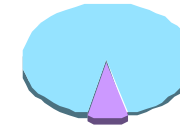
- Sharp decline in sales due to low bookings throughout 2009
- No signs of improvement yet
- Demand for tubes for nuclear power plants remains dynamic

# Petrochemicals

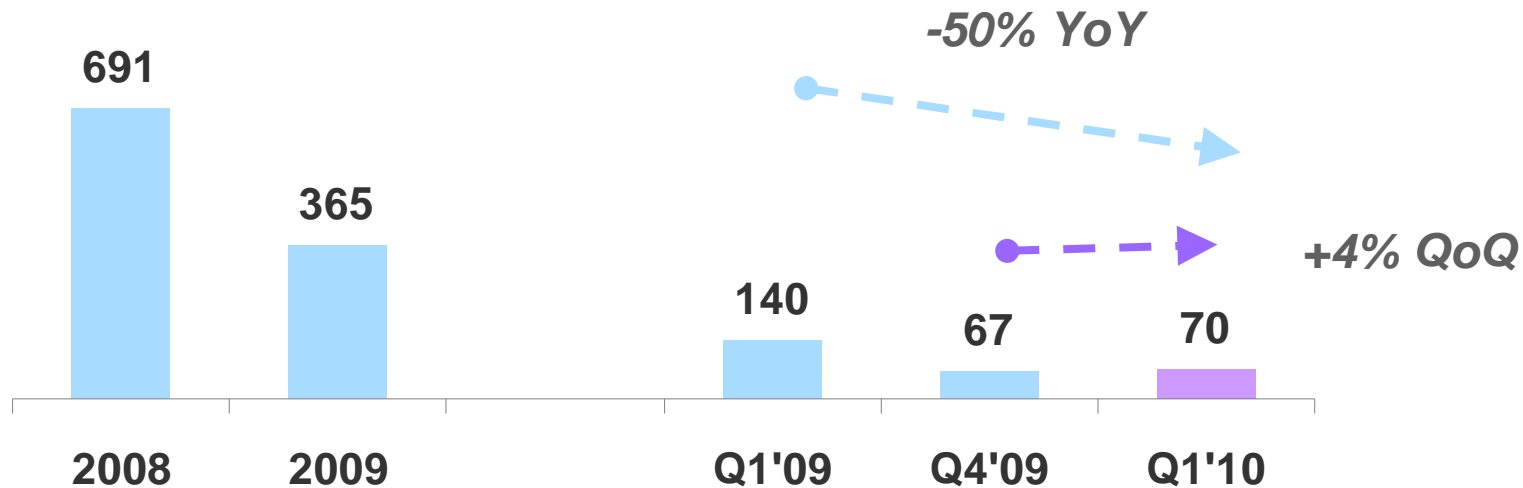
## Sales in this market

€ million

% total sales Q1 2010



8%



- Q1 2010 remained broadly stable
- New bookings increased throughout the quarter

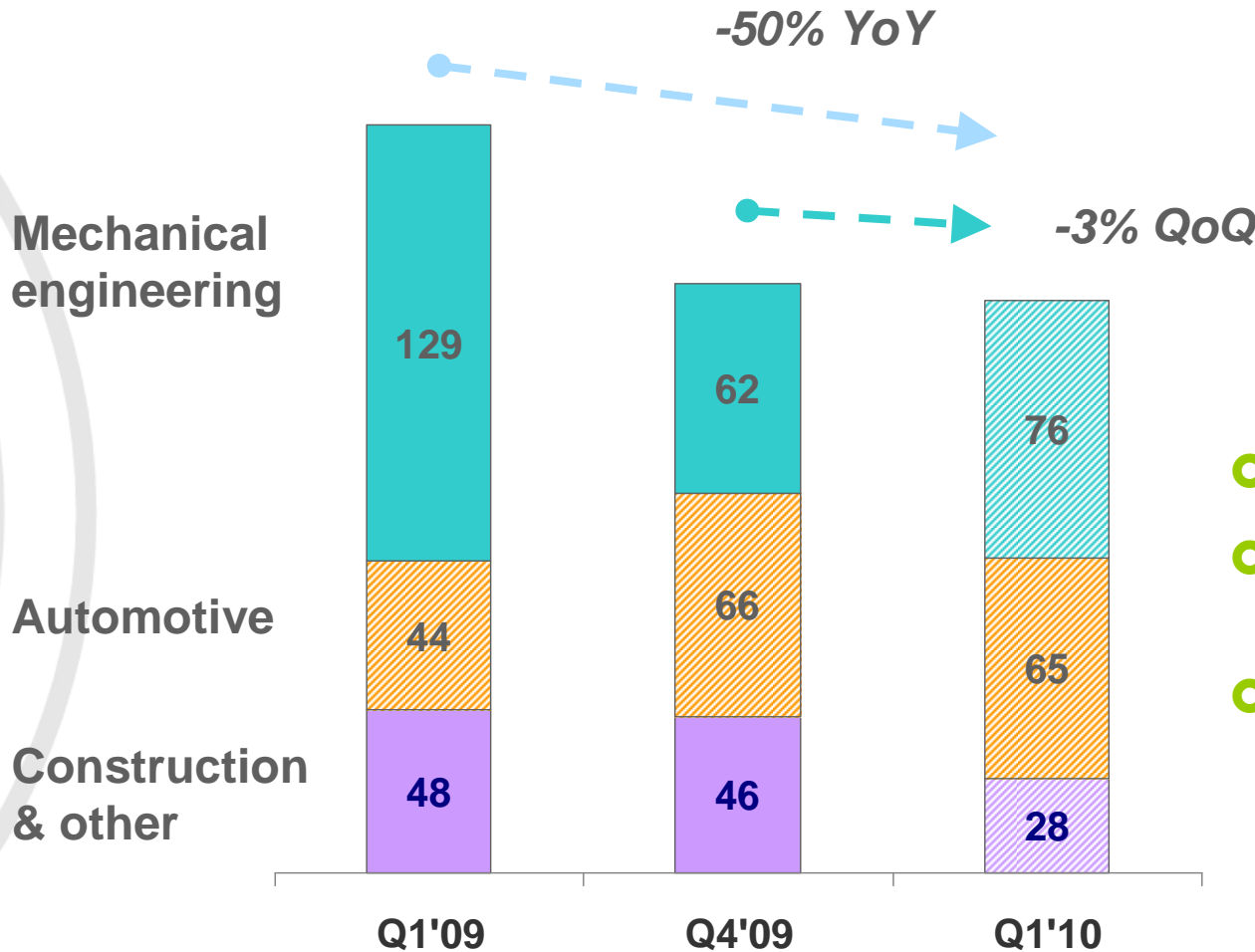
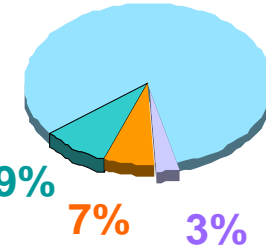


vallourec

Sales in € million

# Other business areas

% total sales Q1 2010

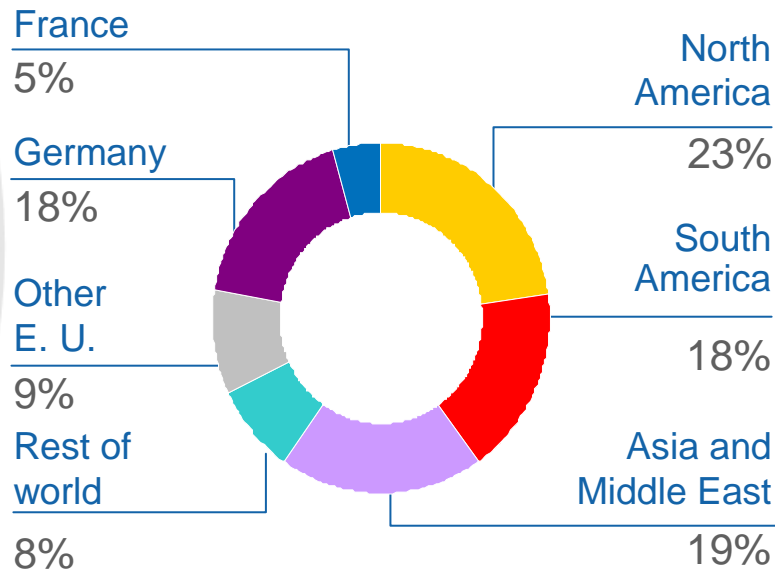


- End of destocking
- Strong rebound in new orders
- Most segments benefiting from improving economic fundamentals

# An international business with a strong focus on energy

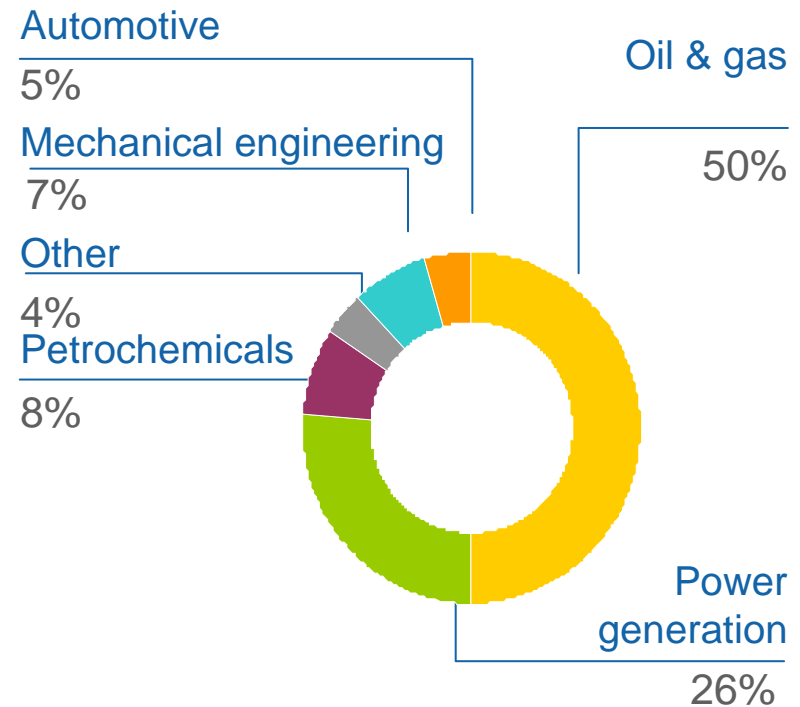
2009

Sales = € 4,465 million



Outside Europe\*: 68%

\* World – E.U. of 27



Energy\*: 84%

\* Oil & gas, Power generation & Petrochemicals