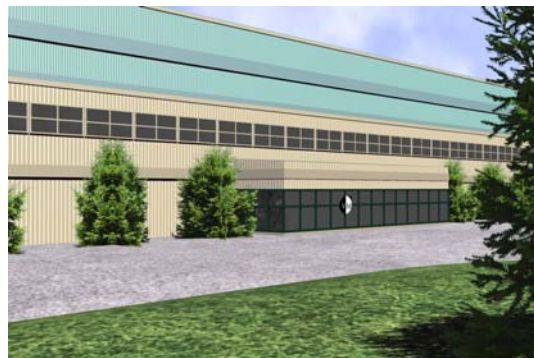
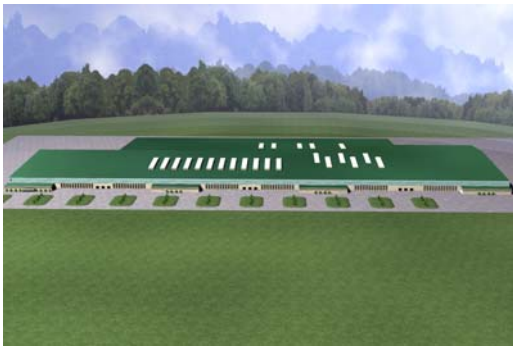


# VALLOUREC

## THE NEW YOUNGSTOWN PIPE MILL

Press kit



Last update: October 10<sup>th</sup> 2011

## Summary

Vallourec, world leader in premium tubular solutions, announced in February 2010 that it will build a new state-of-the-art small diameter rolling mill in Youngstown, Ohio, United States. This decision was supported by the long term development of unconventional gas production in the US which is driving increased demand for small diameter OCTG tubes. The new mill will initially produce 350,000 tonnes per year, with a potential annual rolling capacity of 500,000 tonnes of seamless tubes. The project includes heat treatment and threading facilities. The initial investment amounts to US\$650 million, with the first billet expected to be pierced before the end of 2011 and a progressive ramp-up during the first half of 2012. The project will create around 350 new direct jobs.

### 1. A growing energy demand

Whether it is used to power vehicles, industrial plants or entire communities, the demand for energy is very strong, and continues to grow. And considering industrial and consumer growth in China and other emerging nations, the global energy demand is expected to exceed supply for decades to come. Of course, nowhere is the demand for energy as strong and specific as in the United States of America.

U.S. consumers and corporations are looking for energy solutions that are both environmentally friendly and that promote national self-reliance. Natural gas is the most adapted option, although it is obtained from difficult-to-reach locations in unconventional gas fields. These new developments have structurally modified the oil and gas market in the United States and provided new opportunities for the main players, including Vallourec.

### 2. A revolution in the US energy landscape

A paradigm shift in drilling and completion techniques is currently at play, which will durably revolutionize the US energy landscape.

Everything started in the late 90s, when Mitchell Energy had the idea to inject high-pressure water in horizontal wells in order to break low permeability source rock and thereby stimulate gas production of the Barnett shale play, in Northern Texas. This way, by exposing more wellbore to the reservoir and taking advantage of fractures in the rock, they successfully achieved commercial production of natural gas from reservoir rocks that had long been considered too dense to tap into.

US independents quickly started emulating and further improving these techniques.

Obviously all these techniques significantly increase the cost of a well in comparison with the traditional vertical non fracked well. But they also increase tremendously the ultimate recovery, therefore making it attractive for companies to “go the extra mile”.

As a consequence, while the break-even price for the production of unconventional gas formations was still high at the beginning of the last decade, market sources now indicate that break-even can now be reached with a price under \$4 /MMbtu in the most productive shale plays. Additionally, with current high oil prices, liquid rich plays have also become attractive. And each day brings reports of new plays being discovered: the most recent one being the Utica shale lying underneath the Marcellus, and which appears to be a gigantic oil prone formation.

Improved economics have ensured the commercial success of shale wells, therefore driving the recent boom in horizontal drilling. 57% of the rigs are currently drilling horizontally, versus 25% in 2008.

### 3. Partnering in shale development

Vallourec is uniquely qualified to accompany the development of unconventional drilling in North America, and more than 80% of its local OCTG sales are already going to this application.

Vallourec's manufacturing facilities are located close to unconventional plays. Its integrated site for steel and pipe making is located in the heart of the Marcellus and Utica plays and is one of the most competitive in North America. It is complemented by heat treatment and threading operations in key locations around the country, as well as threading and assembly of accessories, storage and inspection services. Finally its field service engineers and its network of licensees can assist Vallourec customers throughout the continent in the most remote locations.

The Group also benefits from the strength and reputation of the VAM and Atlas Bradford families of premium connections. This product range was recently enriched with VAM SG<sup>®</sup>, a premium connection with extremely high tension performance and increased torque capacity validated to the specific shale drilling requirements.

Finally, Vallourec is strongly committed to working hand in hand with the most professional distributors in North America. This model allows the Group to multiply its efforts to reach out to the most important and fastest growing customers throughout the continent.

This long term partnership strategy with distributors has allowed Vallourec to gain the trust and confidence of major E & P companies in North America, who have chosen to rely on the Group and its distributors for managing their supplies of OCTG, associated accessories and services. As a consequence, Vallourec was able to secure long term agreements of up to 5 years, providing visibility on capacity utilization for the years to come.

## 4. Investing in Ohio's Youngstown area



With the goal of cost-effectively supplying the product Vallorec's customers need, the decision was made in February 2010 to construct a new state-of-the-art seamless hot rolling mill, next to V&M Star's Youngstown facility. Initially conceived to produce 350,000 tons of tubes per year, this new mill has a potential future annual rolling capacity of 500,000 tonnes of seamless tubes. The mill will be completed with heat treatment and high-speed API threading and NDT testing lines.

In Youngstown, Vallorec's new mill will complement the range of products and increase the capacity of our subsidiary V & M Star, which already include a steel mill with an annual capacity of 730,000 tons and a tube mill, with a capacity of 500,000 tons of tubes per year.

The new facility is substantial: the seamless and finishing mill alone will be 5/8 of a mile (1 kilometer) long and 1/4 mile (402 meters) wide, standing 110 feet (34 meters), or 10 stories tall. The completed structure will have 1 million square feet (93,000 square meters), or almost 23 acres under roof. A number of new support structures and facilities are being constructed at the same time and surround the new mill, which sits on 106 acres (429,000 square meters) of land.

Many factors made location of the new facility in Youngstown attractive, including:

- its location next to an existing facility, which provides fixed-cost synergies and logistic efficiencies
- a quick ramp-up to start production
- an experienced, talented and skilled workforce
- the cooperation of federal, state and local authorities in permitting and land preparation

In addition, it was important for Vallorec to contribute to stimulate economic recovery in an industrial region for which the oil and gas industry offers significant prospects.

## 5. Overall recognition

In May 2010, Vallourec teams were honored by President Obama's visit which marked the recognition of the Group commitment to be a major player in the oil and gas industry in the United States. During this visit, President Obama confirmed both his attachment to this region and the importance he gives to the Vallourec project, which represents one of the largest investment programmes in the United States.

Not long after the President's visit, an official ground-breaking ceremony was held on the site of the new plant. Youngstown mill workers, state, federal and local government officials and company executives participated in the ceremonial first shovel.

## 6. A timeline on schedule

When the decision was made to move forward with the new mill in February 2010, an aggressive construction and start-up timeline was announced. Almost immediately, bid meetings were held and suppliers were selected.

Although the scope of the project was daunting, hot commissioning is expected by the end of 2011, followed by a progressive ramp-up of the mill during the first half of 2012.

## 7. Works in progress



Following the ceremonies and celebrations, excavation and site preparation began. For the building foundation, more than 9,000 steel beam piles have been hammered in the ground, which represents 13,000 tons of steel or the equivalent of two Eiffel towers.

Over 145,000 cubic yards (111,000 cubic meters) have been excavated. The piles were then prepared to receive pile caps — rebar was installed, forms were set in place and the pile caps were poured. During the process, more than 23,000 cubic yards (17,500 cubic meters) of concrete were poured, and underground utilities were put in place.

As site preparation continued, the 50,000 parts that make up the rolling mill were arriving almost daily from our Italian supplier Danieli and being stored in nearby warehouse facilities.

## 8. The mill structural frameworks made of high performance tubes

The backbone of the new mill is being constructed with the Preon® system of girders, beams and other hall construction components produced by Vallourec in Germany. This Preon® structure will be the first-ever system used in the United States.

To get the project underway, the raw Preon® product was shipped to the U.S. port of Houston and then transported via rail to the Ambridge, Pennsylvania fabrication plant. Once fabrication was complete, the components were delivered to the Youngstown site. At this time, the Preon® hall is well underway and construction is on schedule.

## 9. The most advanced eco-environmental techniques

For the construction of this new state-of-the-art pipe mill, Vallourec wanted to apply the most advanced eco-environmental techniques employed in the industry. From the outset, particular attention was paid to selecting the most energy-efficient and environmentally-friendly equipment (burners, closed-circuit cooling towers, air compressors, etc.). It should also be noted that the plant is being built on a rehabilitated brown field site and will benefit from a large green belt.

## 10. Safety, a primary concern



It is also important to note that safety is always a primary concern. To-date more than 1.1 million man hours have been performed with a world class safety record. Safety audits are regularly performed.

## Conclusion

Philippe Crouzet, Chairman of Vallourec's Management Board stated: *"This is a strategic investment to support our customers in the development of America's oil and gas resources. We are excited about the opportunities that this new investment brings for the development of the Group. This project capitalizes on our long-term commitments to the US market, our local business partnerships, as well as the support of federal, state and municipal governments. Specifically, we benefit from the talent and skill of our workforce who have demonstrated their ability and commitment to delivering world class products and excellent customer service."*

## In focus...

### Vallourec in North America



With over 2,300 people in 19 manufacturing facilities and service operations in the US, Canada and Mexico, Vallourec in North America primarily serves the local Oil & Gas market. Key products include Oil Country Tubular Goods (OCTG), Line Pipes, Drill Pipes and premium threading services of VAM® and Atlas Bradford®. Most other market segments are served by Vallourec's specialized entities in Europe and Brazil.

In 2010, the North American market generated €1.1 billion in revenues, representing 25% of Vallourec's total sales.