vallourec

Press release

Vallourec reports third quarter results and results for the first nine months of 2018

- Revenue of €2,805 million in 9M 2018 up 4.7% year-on-year (12.9% at constant exchange rates) driven by the positive momentum on the Oil & Gas market, both price and volume wise
- Continuous quarterly EBITDA improvement:
  - €61 million in 9M 2018, improved by €70 million year-on-year
  - €43 million in Q3 2018, improved by €34 million year-on-year
- Fourth quarter 2018 EBITDA targeted to show continuing progress and exceed that of Q3 2018

Boulogne-Billancourt (France), 15 November 2018 – Vallourec, a world leader in premium tubular solutions, today announced its results for the third quarter and first nine months of 2018. The consolidated financial information was presented by Vallourec's Management Board to its Supervisory Board on 14 November 2018.

Key figures

9M 2018	9M 2017	Change YoY	*In millions of euros*	Q3 2018	Q3 2017	Change YoY
1,670	**1,601**	*4.3%*	**Sales Volume (k tons)**	**583**	**588**	*-0.9%*
2,805	**2,680**	*4.7%*	**Revenue**	**961**	**964**	*-0.3%*
61	**(9)**	*+€70m*	**EBITDA**	**43**	**9**	*+€34m*
2.2%	*-0.3%*	*+2.5 pts*	*As % of revenues*	*4.5%*	*0.9%*	*+3.6 pts*
(399)	**(373)**	*-€26m*	**Net income (loss), Group share**	**(92)**	**(119)**	*+€27m*
(571)	**(397)**	*-€174m*	**Free cash flow**	**(153)**	**(72)**	*-€81m*
30 Sept. 2018	**31 Dec. 2017**	**Change Over the period**	*In millions of euros*	**30 Sept. 2018**	**30 June 2018**	**Change Over the period**
2,097	**1,542**	*+€555m*	**Net debt**	**2,097**	**1,934**	*+€163m*

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

"Over the third quarter, Vallourec's EBITDA continued to improve, reflecting the price increases passed on OCTG products in the U.S. Vallourec also continues to reap the benefits of its Transformation Plan. The Group is generating significant cost reductions and securing commercial successes in all regions thanks to its new competitive routes from China and Brazil.

Looking forward, we continue to see positive trends in our main markets and remain confident in the solidity of demand. In the short term, while in the U.S. the temporary build-up in inventories is expected to induce softer demand, the Group expects deliveries on the international Oil & Gas markets to continue to grow. In the fourth quarter, Vallourec targets its EBITDA to show continuing progress and exceed that of Q3 2018."

Information
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I - CONSOLIDATED REVENUE BY MARKET

9M 2018	9M 2017	Change YoY	Change YoY at constant exchange rates	In millions of euros	Q3 2018	Q3 2017	Change YoY	Change YoY at constant exchange rates
1,991	1,859	*7.1%*	*16.2%*	Oil & Gas, Petrochemicals	706	681	*3.7%*	*11.2%*
229	283	*-19.1%*	*-17.3%*	Power Generation	49	94	*-47.9%*	*-45.7%*
585	538	*8.7%*	*16.9%*	Industry & Other	206	189	*9.0%*	*17.5%*
2,805	**2,680**	***4.7%***	***12.9%***	**Total**	**961**	**964**	***-0.3%***	***4.3%***

For the third quarter of 2018, Vallourec recorded revenue of €961 million, broadly stable compared with €964 million for the third quarter of 2017, mainly as a result of a slight negative volume impact of -0.9%, a price/mix effect of +5.3% essentially in the US, partly offset by a negative currency impact of -4.7%. The decrease in volumes year-on-year is essentially related to the decline in Power Generation activities.

For the first nine months of 2018, Vallourec recorded revenue of €2,805 million, up 4.7% compared with the first nine months of 2017 with a positive volume impact of +4.3%, a price/mix effect of +8.6%, partly offset by a negative currency impact of -8.2%. The revenue increase is mainly due to the positive impact of both volume and price increases in the U.S.

Sequentially, Q3 2018 Group revenue was down 2.1% compared with Q2 2018 (€982 million), mainly as a result of lower Power Generation volumes and revenue.

Oil & Gas, Petrochemicals (71.0% of consolidated revenue)

In **Q3 2018, Oil & Gas** revenue amounted to €626 million, up 1.6% year-on-year (up 5.9% at constant exchange rates).

Over the first 9M of 2018, Oil & Gas revenue reached €1,732 million, up 2.8% year-on-year (+11.8% at constant exchange rates):

- **In North America,** Oil & Gas revenue increased significantly year-on-year, despite a negative forex effect: the demand for tubes was supported by higher drilling activity (the average active rig count in the US rose by 19% YoY). Prices increased significantly over the period, with an additional OCTG price increase implemented as from July 1st, 2018.

- **In the EA and MEA regions**, Oil & Gas revenue was down year-on-year. The increase in OCTG revenue was more than offset by an unfavourable forex translation effect and a decrease in deliveries for Pipe Projects for which strong bookings have been recorded over the last months.

- **In South America**, Oil & Gas revenue was slightly up compared to 9M 2017. The increase in revenue was partly offset by the weakening of the Brazilian Real.

In Q3 2018, Petrochemicals revenue was €80 million, up 23.1% year-on-year (up 23.7% at constant exchange rates) driven by the positive momentum in the U.S.

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Over the first 9M of 2018, Petrochemicals revenue was €259 million, up 48.9% year-on-year (up 58.9% at constant exchange rates) driven by the positive momentum in the U.S.

Industry & Other (20.8% of consolidated revenue)

In Q3 2018, Industry & Other revenue amounted to €206 million, up 9.0% year-on-year (up 17.5% at constant exchange rates).

Over the first 9M of 2018, Industry & Other revenue amounted to €585 million, up 8.7% year-on-year (up 16.9% at constant exchange rates):

- **In Europe,** it was essentially driven by higher prices in Mechanical Engineering and Automotive applications despite a slow down in volumes in Q3 due to some destocking at distributors.
- **In South America,** Industry & Other revenue increased essentially as a result of higher volumes in Mechanical Engineering and Automotive applications driven by the progressive recovery in the Brazilian economy.

Power Generation (8.2% of consolidated revenue)

In Q3 2018, Power Generation revenue was €49 million, down 47.9% year-on-year (down 45.7% at constant exchange rates) with conventional power generation sales significantly down compared to Q3 2017, due to a reduced number of projects in Asia.

Power Generation 9M 2018 revenue amounted to €229 million, down 19.1% year-on-year (down 17.3% at constant exchange rates). This decrease was due to lower sales both in nuclear and conventional power generation.

II - CONSOLIDATED RESULTS ANALYSIS

Q3 2018 consolidated results analysis

In Q3 2018, EBITDA stood at €43 million, compared to €9 million in Q3 2017.

- Industrial margin improved by €26 million despite broadly stable consolidated revenue. As a percentage of revenue it improved from 11.8% to 14.6%, reflecting (i) better Oil & Gas volumes and prices mainly in the U.S, (ii) the savings resulting from the Transformation plan, (iii) partially offset by the increase in raw material prices;
- Sales, general and administrative costs (SG&A) were down 2.9% at €99 million, representing 10.3% of revenue compared with 10.6% in Q3 2017.

Operating result was a loss of €29 million, compared to a loss of €88 million in Q3 2017. This is explained by the increase in EBITDA and the absence of "asset disposal, restructuring and other" which amounted to €16 million in Q3 2017.

Financial result was negative at -€60 million versus -€39 million in Q3 2017, resulting mainly from higher interest charges over the period.

Income tax was -€2 million compared to a gain of €6 million in Q3 2017.

The share attributable to non-controlling interests amounted to -€2 million, compared to €2 million in Q3 2017.

This resulted in a net loss of €92 million, compared to a loss of €119 million in Q3 2017.

9M 2018 consolidated results analysis

For the first nine months of 2018, EBITDA stood at €61 million, compared to -€9 million in 9M 2017 thanks to:

- An industrial margin of €373 million, up €46 million compared with 9M 2017, reflecting (i) better Oil & Gas volumes and prices mainly in the U.S, (ii) the savings resulting from the Transformation Plan, (iii) partially offset by the increase in raw material prices and unfavorable currencies evolution;
- Sales, general and administrative costs (SG&A) of €299 million, down 7.4% compared with 9M 2017, now representing 10.7% of revenue compared with 12.1% in 9M 2017. This significant improvement mainly reflects favorable forex impacts and the effects of the Transformation Plan.

Excluding changes in provisions, 9M 2018 EBITDA improved €77 million compared to 9M 2017, with net reversal of €29 million in 9M 2018 and €36 million in 9M 2017.

Operating result was a loss of €234 million, compared to a loss of €277 million in 9M 2017. The better EBITDA was partly offset by "asset disposal, restructuring and other" and impairment charges which were €58 million higher compared to the first nine months of 2017. These charges were booked in H1 2018 and were mainly related to restructuring measures undertaken in Europe and the divestiture of the two remaining French Drilling Products entities.

Financial result was negative at -€165 million versus -€140 million in 9M 2017. This increase is mainly due to higher interest charges as a result of the bonds issued in October 2017 and April 2018. As a reminder, 9M 2017 financial result included a loss of €13 million related to the change in fair value of Vallourec's NSSMC shares.

Income tax was -€2 million, compared to a gain of €24 million in 9M 2017. Tax gains were reduced compared to 9M 2017 mainly as a consequence of the results recovery in North America.

The share attributable to non-controlling interests was nil, compared to €23 million in 9M 2017.

This resulted in a net loss, Group share of -€399 million, compared to -€373 million in 9M 2017.

III - CASH FLOW, FINANCIAL POSITION AND LIQUIDITY

Vallourec generated a free cash flow of -€153 million in Q3 2018 compared to -€72 million in Q3 2017.

For the first nine months of 2018, free cash flow stood at -€571 million compared to -€397 million in the first 9M of 2017. This is mainly explained by:

- Cash flow from operating activities slightly improved at -€198 million compared with -€208 million in 9M 2017 despite higher financial interests and restructuring costs.
- Change in working capital requirement of -€309 million compared to -€103 million in 9M 2017. This increase was driven by higher activity and a temporary build-up in inventories. Working capital is expected to decrease in Q4 2018.
- Capital expenditure stood at -€64 million, compared to -€86 million in 9M 2017, and is aligned with the needs of the Group's recently reshaped industrial footprint.

As a consequence, as at 30 September 2018, Group net debt stood at €2,097 million compared to €1,934 million on 30 June 2018[1].

Vallourec continues to benefit from a strong liquidity position. Its cash position as at 30 September 2018 amounted to €769 million. Medium and long-term undrawn committed facilities amounted to €2.2 billion. At the same date, short-term debt amounted to €1,072 million, including €264 million of commercial paper.

The next significant debt maturity is due in August 2019 and has already been refinanced through the €400 million senior notes issued in April 2018.

IV – TRANSFORMATION PLAN

The Group continues to deploy its most competitive manufacturing routes, in particular VSB and Tianda, whose industrial and commercial integration is progressing well, and is enhancing the competitiveness of its global offer. These new routes have already generated, and will continue to generate significant commercial successes.

The blast furnace and steel production facilities in Belo Horizonte, Brazil, were shut down as planned mid-July.

The finishing line in Saint-Saulve dedicated to conventional power plants will be closed by the end of 2018.

[1] As a reminder, the ratio "Group's consolidated net debt to Group's equity" defined in banking contracts and tested annually on December 31st, is restated for gains and losses on derivatives and for remeasurements (foreign currency gains and losses of consolidated subsidiaries).

V - MARKET TRENDS & 2018 OUTLOOK

In the fourth quarter 2018, Vallourec anticipates the following market trends:

- In the U.S, while the rig count should remain stable at a high level, the Group expects softer demand attributable to temporary higher inventories on the tubular market built in anticipation of Section 232, which aims at benefiting U.S. domestic producers including Vallourec.
- In Brazil, drilling activity is expected to remain stable.
- In the rest of the world, Vallourec's O&G operations should benefit from higher volumes and mix/prices.

The Transformation Plan should generate higher cost savings over the second half of the year compared with the first half.

All in all, the Group targets the fourth quarter 2018 EBITDA to show continuing progress and exceed that of the third quarter.

Looking forward, Vallourec continues to foresee sustained hydrocarbon demand as well as continued depletion which are expected to continue to support oil and gas companies' increasing global activity.

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.

Presentation of Q3 and first 9M 2018 financial 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/Vallourec18Q3

- To participate in the conference call, please dial :
  +44 (0)330 336 9128 (UK),
  +33 (0)1 76 77 22 89 (France),
  +1 646-828-8193 (USA),
  +44 (0)330 336 9128 (Other countries)
  Conference code: 3323633

- Audio webcast and slides will be available on the website at:
  http://www.vallourec.com/EN/GROUP/FINANCE

Calendar

20 February 2019	Release of fourth quarter and full year 2018 financial results

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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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Appendices

Documents accompanying this release:

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

Sales volume

In thousands of tons	2018	2017	Change YoY
Q1	**515**	475	*8.4%*
Q2	**572**	538	*6.3%*
Q3	**583**	588	*-0.9%*
Q4		655	
Total	**1,670**	**2,256**	

Forex

Average exchange rate	9M 2018	9M 2017
EUR / USD	**1.19**	1.11
EUR / BRL	**4.30**	3.54
USD / BRL	**3.60**	3.17

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Revenue by geographic region

In millions of euros	9M 2018	*As % of revenue*	9M 2017	*As % of revenue*	*Change YoY*
Europe	**427**	*15.2%*	420	*15.7%*	*1.7%*
North America	**964**	*34.4%*	676	*25.2%*	*42.6%*
South America	**469**	*16.7%*	452	*16.9%*	*3.8%*
Asia & Middle East	**767**	*27.4%*	869	*32.4%*	*-11.7%*
Rest of World	**178**	*6.3%*	263	*9.8%*	*-32.3%*
Total	**2,805**	***100.0%***	**2,680**	***100.0%***	***4.7%***

Revenue by market

9M 2018	*As % of revenue*	9M 2017	*As % of revenue*	*Change YoY*	*In millions of euros*	Q3 2018	*As % of revenue*	Q3 2017	*As % of revenue*	Change YoY
1,732	*61.8%*	1,685	*62.9%*	*2.8%*	Oil & Gas	626	*65.2%*	616	*63.9%*	*1.6%*
259	*9.2%*	174	*6.5%*	*48.9%*	Petrochemicals	80	*8.3%*	65	*6.7%*	*23.1%*
1,991	***71.0%***	**1,859**	***69.4%***	***7.1%***	**Oil & Gas, Petrochemicals**	**706**	***73.5%***	**681**	***70.6%***	***3.7%***
229	***8.2%***	**283**	***10.6%***	***-19.1%***	**Power Generation**	**49**	***5.0%***	**94**	***9.8%***	***-47.9%***
323	*11.5%*	245	*9.1%*	*31.8%*	Mechanicals	120	*12.5%*	90	*9.3%*	*33.3%*
115	*4.1%*	105	*3.9%*	*9.5%*	Automotive	37	*3.8%*	35	*3.7%*	*5.7%*
147	*5.2%*	188	*7.0%*	*-21.8%*	Construction & Other	49	*5.1%*	64	*6.6%*	*-23.4%*
585	***20.8%***	**538**	***20.0%***	***8.7%***	**Industry & Other**	**206**	***21.4%***	**189**	***19.6%***	***9.0%***
2,805	***100.0%***	**2,680**	***100.0%***	***4.7%***	**Total**	**961**	***100.0%***	**964**	***100.0%***	***-0.3%***

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Summary consolidated income statement

9M 2018	9M 2017	Change YoY	*In millions of euros*	Q3 2018	Q3 2017	Change YoY
2,805	**2,680**	*4.7%*	**REVENUE**	**961**	**964**	*-0.3%*
(2,432)	(2,353)	*3.4%*	Cost of sales(1)	(821)	(850)	*-3.4%*
373	**327**	*14.1%*	***Industrial margin***	**140**	**114**	*22.8%*
13.3%	*12.2%*	*+1.1 pt*	*(as % of revenue)*	*14.6%*	*11.8%*	*+2.7 pts*
(299)	(323)	*-7.4%*	SG&A costs(1)	(99)	(102)	*-2.9%*
(13)	(13)	*na*	Other income (expense), net	2	(3)	*na*
61	**(9)**	*+€70m*	**EBITDA**	**43**	**9**	*+€34m*
2.2%	*-0.3%*	*+2.5 pts*	*EBITDA as % of revenue*	*4.5%*	*0.9%*	*+3.5 pts*
(197)	(221)	*-10.9%*	Depreciation of industrial assets	(63)	(70)	*-10.0%*
(26)	(33)	*na*	Amortization and other depreciation	(8)	(10)	*na*
(15)	(1)	*na*	Impairment of assets	(1)	(1)	*na*
(57)	(13)	*na*	Asset disposals, restructuring and other	-	(16)	*na*
(234)	**(277)**	*+€43m*	**OPERATING INCOME (LOSS)**	**(29)**	**(88)**	*+€59m*
(165)	(140)	*17.9%*	Financial income (loss)	(60)	(39)	*53.8%*
(399)	**(417)**	*+€18m*	**PRE-TAX INCOME (LOSS)**	**(89)**	**(127)**	*+€38m*
(2)	24	*na*	Income tax	(2)	6	*na*
2	(3)	*na*	Share in net income (loss) of associates	1	-	*na*
(399)	**(396)**	*-€3m*	**NET INCOME (LOSS) FOR THE CONSOLIDATED ENTITY**	**(90)**	**(121)**	*+€31m*
-	23	*na*	Non-controlling interests	(2)	2	*na*
(399)	**(373)**	*-€26m*	**NET INCOME (LOSS), GROUP SHARE**	**(92)**	**(119)**	*+€27m*
(0.9)	**(0.8)**	*-€0.1*	**EARNINGS PER SHARE (in €)**	**(0.2)**	**(0.3)**	*+€0.1*

(1) Before depreciation and amortization
na: not applicable

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Summary consolidated balance sheet

In millions of euros					
Assets	**30-Sept 2018**	**31-Dec 2017**	**Liabilities**	**30-Sept 2018**	**31-Dec 2017**
			Equity, Group share	1,857	2,426
Net intangible assets	74	89	Non-controlling interests	448	459
Goodwill	353	348	**Total equity**	**2,305**	**2,885**
Net property, plant and equipment	2,701	2,977	Shareholder loan	55	72
Biological assets	60	71	Bank loans and other borrowings (A)	1,794	1,817
Associates	108	102	Employee benefits	186	209
Other non-current assets	143	137	Deferred tax liabilities	28	18
Deferred tax assets	241	242	Provisions and other long-term liabilities	52	61
Total non-current assets	**3,680**	**3,966**	**Total non-current liabilities**	**2,060**	**2,105**
Inventories and work-in-progress	1,172	1,004	Provisions	145	149
Trade and other receivables	703	568	Overdrafts and other short-term borrowings (B)	1,072	746
Derivatives - assets	5	32	Trade payables	565	582
Other current assets	222	231	Derivatives - liabilities	34	13
Cash and cash equivalents (C)	769	1,021	Tax and other current liabilities	315	321
Total current assets	**2,871**	**2,856**	**Total current liabilities**	**2,131**	**1,811**
Assets held for sale	-	64	Liabilities disposal for sale	-	13
TOTAL ASSETS	**6,551**	**6,886**	**TOTAL EQUITY AND LIABILITIES**	**6,551**	**6,886**
Net debt (A+B-C)	**2,097**	**1,542**	**Net income (loss), Group share**	**-399**	**-537**

Cash flow statement

9M 2018	9M 2017	*In millions of euros*	Q3 2018	Q3 2017	Q2 2018	Q1 2018
(198)	(208)	Cash flow from operating activities	(54)	(48)	(61)	(83)
(309)	(103)	Change in operating WCR + decrease, (increase)	(73)	1	(84)	(152)
(507)	**(311)**	**Net cash flow from operating activities**	**(127)**	**(47)**	**(145)**	**(235)**
(64)	(86)	Gross capital expenditure	(26)	(25)	(19)	(19)
-	-	Financial investments	-	-	-	-
-	-	Increase and decrease in equity	-	-	-	-
-	-	Impact of acquisition	-	-	-	-
-	-	Dividends paid	-	-	-	-
16	39	Asset disposals & other items	(10)	40	13	13
(555)	**(358)**	**Change in net debt** ***+ decrease, (increase)***	**(163)**	**(32)**	**(151)**	**(241)**
2,097	1,645	Net debt (end of period)	2,097	1,645	1,934	1,783

Free cash flow

9M 2018	9M 2017	Change (in € million)	*In millions of euros*	Q3 2018	Q3 2017	Change (in € million)
(198)	(208)	10	Cash flow from operating activities (FFO) **(A)**	(54)	(48)	-6
(309)	(103)	-206	Change in operating WCR **(B)** *[+ decrease, (increase)]*	(73)	1	-74
(64)	(86)	22	Gross capital expenditure **(C)**	(26)	(25)	-1
(571)	**(397)**	**-174**	**Free cash flow (A)+(B)+(C)**	**(153)**	**(72)**	**-81**

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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 (including the shareholder loan in Brazil) 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.