

# Letter to shareholders

September 2018



“ EBITDA in the second half of 2018 is targeted to be significantly higher than in the first half. ”

**OLIVIER MALLET**

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## Dear Shareholder,

The first half 2018 financial results highlighted the increase in Vallourec's revenue and EBITDA mainly driven by the positive momentum on the U.S Oil & Gas market. The Group which is fully integrated in the region, from steel production to the finishing of tubes is taking advantage of its local manufacturing facilities and has passed on, as planned, significant price increases on OCTG products as of July 1<sup>st</sup> 2018.

Oil and Gas International markets also show positive signs of improving activity. Higher bookings in the EA and MEA<sup>(1)</sup> regions will benefit Vallourec's deliveries from the second part of this year on. In Brazil, we have started to execute our new long-term contracts with Petrobras and are ideally positioned to capture opportunities which will come from the opening of the Brazilian pre-salt fields to IOCs.

Going forward, we are focused on three pillars which will continue to improve EBITDA. First, the continued improvement in our competitiveness through the implementation of our Transformation Plan, which will again generate significant cost reductions. Secondly, ensuring we benefit from the improvements in volumes and prices in our main markets. Lastly, the opportunities which come from our new competitive routes in China and Brazil have already generated, and will continue to generate commercial successes in all regions. Vallourec remains very focused on its objective of returning to cash flow positive as soon as possible.

Vallourec continues to benefit from a liquidity position qualified as "strong" by Standard and Poor's. In April 2018, the Group raised €400 million on the bond market. The proceeds from this offering will be used together with cash on hand, to refinance Vallourec's outstanding bonds due August 2019 by redeeming them when they mature. The next significant maturity date will be in 2022.

Taking into account the gradual recovery in our main markets and the continued progress in our Transformation Plan, we confirmed on 25 July 2018 our positive outlook for the year with EBITDA in the second half of 2018 targeted to be significantly higher than in the first half.

Vallourec will attend for the second time in a row the Actionaria fair in Paris on 22 and 23 November 2018. This event is dedicated to individual shareholders and gives an opportunity to meet and exchange. We look forward to seeing you there to give you an insight into our activities, know-how and our strategy and to answer your questions on the Group.

Thank you for your trust and loyalty.

## **OLIVIER MALLET**

Member of the Management Board  
Chief Financial Officer and General Counsel

## CALENDAR

### Financial Releases

**15 NOVEMBER 2018**

Q3 and first nine months 2018 results

*(1) Europe Africa and Middle East Asia*

## First half 2018 financial results

The Group registered improved revenue and EBITDA, driven by the positive momentum on the U.S Oil & Gas market.

### IMPROVED REVENUE AND EBITDA

H1 2018 consolidated revenue stood at €1,844 million, a 7.5% increase compared to H1 2017 mainly driven by a positive volume impact of +7.3%, a price/mix effect of +10.3% essentially in the US, partly offset by a negative currency impact of -10.1%. **EBITDA stood at €18 million, a €36 million improvement compared to H1 2017 reflecting namely higher activity and the savings resulting from the Transformation Plan initiatives.**

Free cash flow was €-418 million in H1 2018 essentially as a result of the increase in the working capital requirement (WCR) which was mainly driven by higher activity. In spite of this, WCR in number of days was stable compared to Q2 2017. Working capital is targeted to decrease in the second half of the year.

Net debt at the end of June stood at €1,934 million. Net result, Group share was €-307 million.

### TRANSFORMATION PLAN

Vallourec continues to deploy its **Transformation Plan which generated €52 million gross savings in H1 2018**. In April 2018, Vallourec closed the sale of the main part of its Drilling Products business to NOV, and the divestiture of Vallourec Fittings, a subsidiary producing seamless fittings in France. The two French Drilling Products entities in Cosne-Cours-sur-Loire (Bourgogne-Franche Comté) and in Tarbes (Occitanie) that were undergoing an independent divestment process were subsequently taken over by Altifort. The blast furnace and steel production facilities in Belo Horizonte, Brazil, were shut down as planned mid-July. The small tube finishing line in Saint-Saulve dedicated to conventional power plants will be closed by the end of 2018. Lastly the Group is also continuing the **deployment of its most competitive**

manufacturing routes, in particular VSB in Brazil and Tianda in China, whose industrial and commercial integration is progressing well, **thereby enhancing the competitiveness of the Group's global offer.**

### OUTLOOK

When it released its first half 2018 financial results on 25 July 2018, Vallourec confirmed its outlook for the Oil & Gas market: *"In the U.S., demand for tubular products is expected to stay strong due to the continuous robust drilling activity, and Vallourec will benefit from OCTG price increases realized as of the beginning of H2 2018. In addition, Section 232 measures should eventually tighten the US OCTG market, on which Vallourec is primarily serving its customers from its domestic facilities; the Group is actively working on debottlenecking its US finishing capacities to fully utilize its local rolling capacity, and in the meantime adapting its production routes to Section 232 measures, which are impacting imports to the US from Brazil. In Brazil, drilling activity is expected to remain stable. The new long-term contracts signed with Petrobras have entered into force this summer. In the rest of the world, Vallourec continues to anticipate higher Oil & Gas deliveries in H2 2018. Macroeconomics should continue to 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 faced in H1, which are currently stabilized, Vallourec confirms its positive outlook for the full year based on the progressive recovery of its main markets and the continuous significant savings generated by its Transformation Plan. The Group targets 2018 EBITDA to improve versus 2017, with H2 2018 significantly higher than H1."*

## In figures H1 2018

### Sales volume

1,087 kt

+7.3% compared with H1 2017

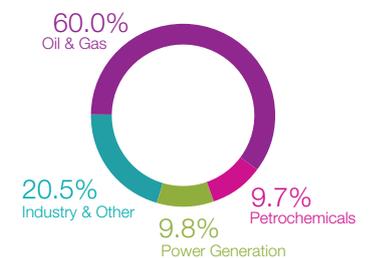
### Revenue

€1,844 million

+7.5% compared with H1 2017

### Revenue breakdown

(in %)



### EBITDA

€18 million

+€36 million compared with H1 2017

### Net result, Group share

€-307 million

€-53 million compared with H1 2017

### Net debt as at 30 June 2018

€1.9 billion

€+392 million compared to 31 December 2017

## SHAREHOLDER CONTACT

### Investor Relations

27 avenue du Général Leclerc  
92100 Boulogne-Billancourt  
France

Tel.: +33 (0)1 49 09 39 76

E-mail: [actionnaires@vallourec.com](mailto:actionnaires@vallourec.com)

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## LET'S MEET AT THE ACTIONARIA FAIR



On November 22 and 23, 2018, Vallourec will attend for the second year in a row the Actionaria Fair dedicated to individual investors in Paris. The Investor Relations team and Group technical experts will meet with you to exchange on the Group's activities, know-how, products and solutions and strategy. **We look forward to meeting you there!**

**Save the date!** Olivier Mallet, Chief Financial Officer and General Counsel and Member of the Management Board will participate in "Face aux Dirigeants" ("Meeting the Management"), an interview with a financial journalist on November 22, at 4:50 pm.

To receive a free invitation by email or by post, contact us at [actionnaires@vallourec.com](mailto:actionnaires@vallourec.com)

### Dates and opening hours:

Thursday, 22 November 2018: from 1pm to 8:30 pm

Friday, November 23 2018: from 9:30 am to 7 pm

**Address:** Palais des Congrès de Paris,  
2 Place de la Porte Maillot 75017 Paris.

**Vallourec booth:** C52