Press release

Vallourec reports second quarter and first half 2019 results

Boulogne-Billancourt (France), July 24th 2019 – Vallourec, a world leader in premium tubular solutions, today announces its results for the second quarter and first half of 2019. The consolidated financial information was presented by Vallourec's Management Board to its Supervisory Board on July 23rd 2019.

Second quarter 2019:

- **Revenue: €1,084 million, up 10% year-on-year** (+8% at constant exchange rates)
- **EBITDA [(1)]: €102 million, versus €23 million in Q2 2018**
- **Positive free cash flow [(1)] of €16 million compared to (€164) million in Q2 2018**
  - Positive cash flow from operating activities at €39 million versus (€61) million in Q2 2018
  - Slight increase of (€4) million in operating working capital requirement versus a (€84) million increase in Q2 2018; net working capital requirement at 108 days of sales versus 114 at end of Q2 2018
- **Net debt [(1)] as at 30th June 2019: €2,111 million** versus €2,125 million as at March 31st, 2019

Confirmed outlook for 2019:

Based on current economic and market trends [(2)], the Group confirms:

- The recovery in its Oil and Gas activity, primarily driven by international markets
- Its targets for 2019, namely:
  - Strong increase in EBITDA, supported by market trends, additional savings as well as ongoing deployment from the Group's new competitive manufacturing routes
  - Continuous improvement in working capital requirement, beyond usual seasonal movements, with a diminishing number of days of working capital requirement on both quarterly average and end of year
  - Capex around €180 million, consistent with the needs of its renewed industrial footprint
- Based on current market trends and on the objectives outlined above, the Group would respect its banking covenant at the end of the year.

(1) Detailed impacts of IFRS 16 on EBITDA, net debt, lease debt, and free cash flow are described in consolidated results analysis (page 4&5), financial position (page 6) and in appendices on pages 13,14,15 & 16
(2) Cf paragraph Information and Forward-Looking Statements

Information
Half-year financial statements as at June 30th 2018 and June 30th 2019 were subject to limited review by statutory auditors.
Quarterly financial statements are unaudited and not subject to any review.
Unless otherwise specified, indicated variations are expressed in comparison with the same period of the previous year.

Key figures (3)

H1 2019	H1 2018	Change YoY	In millions of euros	Q2 2019	Q2 2018	Change YoY
1,176	**1,087**	*8%*	**Sales volume (k tons)**	**605**	**572**	*6%*
2,109	**1,844**	*14%*	**Revenue**	**1,084**	**982**	*10%*
169	**18**	*€151m*	**EBITDA**	**102**	**23**	*€79m*
8.0%	*1.0%*	*+7.0p.p.*	*As % of revenue*	*9.4%*	*2.3%*	*+7.1p.p.*
(167)	**(307)**	*€140m*	**Net income (loss), Group share**	**(77)**	**(137)**	*€60m*
(143)	**(418)**	*€275m*	**Free cash-flow**	**16**	**(164)**	*€180m*

(3) IFRS 16 detailed impacts on EBITDA, net debt, lease debt and free cash flow are described in consolidated results analysis (page 4&5), financial position (page 6) and in appendices on pages 13, 14, 15 & 16.

Net debt

30 June 2019	1 Jan 2019 Post IFRS 16	Change over the period	In millions of euros	31 Dec 2018
2,111	**1,999**	*€112m*	**Net debt ***	**2,058**

** Net debt of €2,058 million at the end of December 2018 includes €59 million of financial lease debt*

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

"With double digit revenue growth, continued rebound in profitability and a positive free cash flow, the second quarter performance brought new evidence that Vallourec is on the right path to recovery.

As anticipated, Oil and Gas is key in achieving these results, with EA-MEA being the main driver. In addition, Vallourec's mining operations in Brazil sold higher volumes at better prices.

We now target the solid EBITDA generation achieved in the first semester to be confirmed in the second one, the moderate slowdown expected on the North American Oil and Gas market being counterbalanced over the semester by an overall good level of activity in the Group's other markets and the continuation of our transformation plan execution.

We remain focused on cash discipline: our new initiatives to control working capital have already yielded positive results in the first part of the year, and we remain committed to achieve further progress going forward.

Looking ahead, we are confident to see in 2020, following the recovery of EA-MEA Oil and Gas markets in 2019, the restart of exploration activity in Brazil, where we enjoy strong positions, as a result of drilling commitments taken by oil companies following the bidding rounds over the last two years".

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I - CONSOLIDATED REVENUE BY MARKET

H1 2019	H1 2018	Change YoY	At constant exchange rates	In millions of euros	Q2 2019	Q2 2018	Change YoY	At constant exchange rates
1,525	1,285	*19%*	15%	Oil & Gas, Petrochemicals	787	701	*12%*	*9%*
482	379	*27%*	*29%*	Industry & Other	245	199	*23%*	*25%*
102	180	*-43%*	*-43%*	Power Generation	52	82	*-37%*	*-37%*
2,109	**1,844**	***14%***	***12%***	**Total**	**1,084**	**982**	***10%***	***8%***

Q2 2019 revenue amounted to €1,084 million, up 10% compared with Q2 2018 (+8% at constant exchange rates) with a positive volume effect of +6%, a positive price/mix effect of +2%, and a positive currency effect of +2%.

Over the first half 2019, revenue totaled €2,109 million, up 14% versus first half 2018 (+12% at constant exchange rates). Volume effect was +8%, price/mix effect +4% and currency effect +2%.

Oil & Gas, Petrochemicals (72% of consolidated revenue)

In Q2 2019, Oil & Gas revenue amounted to €724 million, **up 18% year-on-year** (+14% at constant exchange rates).

- **In EA-MEA**, **Oil & Gas revenue increased significantly year-on-year**, fueled mostly by volumes.
- **In North America**, Oil & Gas revenue increased slightly year-on-year thanks to the price increase passed on Q3 2018, although market prices have started to erode.
- **In South America**, Oil & Gas revenue was down year-on-year, reflecting a temporary low point for offshore OCTG deliveries.

Over the first half 2019, **Oil & Gas** revenue totaled €1,395 million, **a strong increase or +26% year-on-year** (+22% at constant exchange rates).

In Q2 2019, Petrochemicals revenue amounted to €63 million, down 27% year-on-year (-28% at constant exchange rates) notably due to lower volumes sold in North America and reallocation to higher margin products in Middle East Asia.
Over the first half 2019, **Petrochemicals** revenue totaled €130 million, down 27% year-on-year (-30% at constant exchange rates).

In Q2 2019 revenue for Oil & Gas and Petrochemicals amounted to €787 million, up 12% compared with Q2 2018 (+9% at constant exchange rates) due to higher O&G volumes in EA-MEA and positive impact of Q3 2018 OCTG price increase in North America.
Over the first half 2019, revenue for Oil & Gas and Petrochemicals totalled €1,525 million, up 19% compared with H1 2018 (+15% at constant exchange rates).

Industry & Other (23% of consolidated revenue)

Q2 2019 revenue of €245 million increased 23% compared with Q2 2018 (+25% at constant exchange rates).

- In Europe, Industry revenue slightly decreased due to lower volumes in a challenging economic environment.
- In Brazil, Industry & Other revenue was significantly up, mainly driven by iron ore.

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Over the first half 2019, Industry & Other revenue totaled €482 million, up 27% year-on-year (+29% at constant exchange rates) primarily as a result of the higher revenue from iron ore. Volume of iron ore sold increased by +35% in H1 2019 compared to H1 2018 thanks to productivity improvements. Also, revenue growth benefitted from a higher iron ore price.

Power Generation (5% of consolidated revenue)

Power Generation revenue amounted to €52 million in Q2 2019, down 37% compared with Q2 2018 (-37% at constant exchange rates). This decrease was due to the decline in global demand for coal-fired conventional power plants.

For the first half 2019, revenue totaled €102 million, down 43% year-on-year (-43% at constant exchange rates).

II - CONSOLIDATED RESULTS ANALYSIS

Q2 2019 consolidated results analysis

In Q2 2019, EBITDA reached €102 million, improving by €79 million year on year including:

- Industrial margin of €213 million, up €83 million compared with Q2 2018 (up 6.4p.p.), reflecting primarily higher activity in EA-MEA Oil & Gas. Together with a higher mine contribution, it did largely offset lower contribution in Oil & Gas South America.
- Sales, general and administrative costs (SG&A) at €105 million, up 6%, representing 9.7% of revenue compared with 10.1% in Q2 2018.
- EBITDA included a positive €8 million IFRS 16 impact and a €3 million net increase in provisions.

Excluding changes in provisions and IFRS 16 impact, Q2 2019 EBITDA amounted to €97 million, to be compared with €17 million in Q2 2018 and €65 million in Q1 2019.

Operating result improved by €76 million and turned positive at +€1 million.
An impairment of an asset dedicated to nuclear activity was recorded in Q2 2019 for an amount of (€21) million. “Assets disposals, restructuring, and other” charges amounted to (€6) million in Q2 2019 compared to (€24) million in Q2 2018.
“Amortization and other depreciation” included a (€7) million IFRS 16 impact (depreciation of right-of-use).

Financial result remained stable at (€61) million versus (€62) million in Q2 2018. It includes a (€2) million negative IFRS 16 impact (interest expenses on lease debt).

Income tax was €14 million in Q2 2019, mainly related to tax charges in Brazil**,** while there was no tax accounted in Q2 2018.

As a result, net loss, Group share, has been reduced by €60 million, amounting to (€77) million, compared to (€137) million in Q2 2018.

H1 2019 consolidated results analysis

In H1 2019, EBITDA reached €169 million, improving by €151 million year on year including:

- Industrial margin of €381 million, up €148 million compared with H1 2018 (up 5.5p.p.) reflecting primarily higher activity in EA-MEA Oil & Gas. Together with a higher mine contribution, it did largely offset lower contribution in Oil & Gas South America.
- Sales, general and administrative costs (SG&A) down 1% at €198 million, representing 9.4% of revenue compared with 10.8% in H1 2018, and reflecting tight cost control.
- EBITDA included a positive €16 million IFRS 16 impact and a (€9) million net increase in provisions.

Excluding changes in provisions and IFRS 16 impact, H1 2019 EBITDA amounted to €162 million, to be compared with €4 million in H1 2018.

Operating result improved by +187 million to a loss of (€18) million thanks to a higher EBITDA and lower "asset disposal, restructuring and other" charges (reduced by €46 million), largely compensating a higher impairment charge of (€8) million. Impairment charges in H1 2019 included (€21) million related to an asset dedicated to nuclear activity. "Amortization and other depreciation" included a (€14) million IFRS 16 impact (depreciation of right-of-use).

Financial result was negative at (€122) million, compared to (€105) million in H1 2018, mainly due to higher interest charges as a result of the €400 million senior notes issued in April 2018, and to the recognition of a (€5) million IFRS 16 impact (interest expenses on lease debt).

Income tax amounted to (€22) million mainly related to Brazil, while there was no tax recorded in H1 2018.

As a result, net loss, Group share, has been reduced by €140 million, amounting to (€167) million, compared to (€307) million in H1 2018.

III – CASH FLOW & FINANCIAL POSITION

Cash flow from operating activities

Cash flow from operating activities in Q2 2019 was positive at €39 million compared to (€61) million in Q2 2018, and positive at €10 million in H1 2019 compared to (€144) million in H1 2018.

Operating working capital requirement

In Q2 2019, operating working capital requirement slightly increased by €4 million versus an increase of €84 million in Q2 2018. It was improved year-on-year in days of sales: in line with our objectives, net working capital requirement was reduced to 108 days of sales, compared to 114 days at the end of Q2 2018.
In H1 2019, operating working capital requirement increased by €117 million versus an increase of €236 million in H1 2018.

Capex

Capital expenditure in Q2 2019 was stable compared to Q2 2018, at (€19) million, and stable in H1 2019 compared to H1 2018, at (€36) million versus (€38) million.

Free cash flow

In Q2 2019 the Group generated a positive free cash flow of €16 million versus (€164) million in Q2 2018, due to a higher Ebitda and an improved performance in working capital management.
Free cash flow for H1 2019 was negative at (€143) million, an improvement of €275 million compared with (€418) million in H1 2018.

Net debt and liquidity

As at June 30th 2019, net debt was slightly reduced at 2,111 million, compared with €2,125 million on March 31st 2019. It amounted to €1,999 million on January 1st 2019. As a reminder, €59 million were reclassified from net debt to lease debt on January 1st 2019, applying IFRS 16 (see table on page 15).

The Company benefits from a sound liquidity position. Cash as at June 30th 2019 amounted to €729 million, and €1,831 million of its €2,128 million committed bank facilities were unused.
At the same date, long term debt amounted to €1,743 million and short-term debt to €1,097 million, including €400 million of private bonds, €101 million of commercial paper and €297 million drawn from the €2,128 million committed banking facilities.

As at June 30th 2019, the banking covenant ratio, as defined in the banking contracts [(4)] and tested once a year on December 31st, was estimated at 79%. IFRS 16 implementation has no impact on the banking covenant ratio.

[(4)] Banking covenant: As defined in the banking agreements, the "banking covenant" ratio is the ratio of the Group's consolidated net debt including the shareholder loan in Brazil and the "financial lease debt" which was recorded in net debt on December 31st, 2018 (excluding "operational lease") to the Group's equity, restated for reserves of changes in fair value of financial instruments and foreign currency translation reserve. This indebtedness ratio is tested once a year on December 31st, and must be below a limit of 100% on this date.

IV – TRANSFORMATION PLAN

Gross savings

New initiatives to further accelerate the path to recovery were announced in February 2019 and are under deployment. At least €200 million additional gross savings are targeted by 2020, with a focus on European operations, notably Germany, and on Brazil to further reinforce its best-in-class profile.

In H1 2019 €48 million of gross savings were achieved, in line with this objective.

Notably in Germany, headcount was reduced during Q2 by another 106 which came in addition to the 135 already achieved in Q1, out of a target of 600 by the end of 2020.

Conventional Powergen business

The new tariffs recently applied by Chinese authorities on a significant part of the steel pipes produced in Germany for the Chinese conventional powergen market made the divestiture of the Group's conventional power business unlikely. Discussions are ongoing with German employees representatives to assess the future of the dedicated operations.

Iron ore mine expansion project

Following the submission to Minas Gerais authorities of the project of expansion of its mining operations, with the construction of a new processing unit, Vallourec has been granted the required license. The Group should finalize the investment approval procedure in the coming months.

The project aims at increasing the capacity of iron ore production to around 8.5 million tons per year as from 2022.

In the meantime, production volumes should increase to reach between 5.5 and 6.0 million tons in 2019, compared to 4.7 million in 2018, thanks to productivity improvements. Iron ore production should stay at similar levels until completion of the expansion project.

As a reminder, the mine sells the main part of its production to the local market and supplies Vallourec's blast furnace and pellet plant located in Jeceaba, Minas Gerais.

V – MAIN MARKET TRENDS

Oil & Gas

- In **EA-MEA**, the Group should continue to benefit from the ongoing recovery of Oil & Gas markets, as well as from the deployment of its competitive new routes;
- In **North America**, the market slowdown is expected to moderately weigh on second half results, with operators maintaining capex discipline, and distributors adjusting inventories;
- **In South America**, a pick-up in deliveries in Brazil is expected to materialize in the latter part of the year, and then accelerate into 2020, driven by a significant increase in exploration drilling in deep off-shore fields.

Industry & Other

- In **Europe**, demand remains low with pressure on prices, in particular in Germany
- In **Brazil**, outlook for the mine remains positive.

Raw materials & currencies

- Assuming exchange rates remain at their current level, a favorable currency impact is expected in 2019.
- Regarding raw materials, scrap prices decreased in H1 2019 and are gradually stabilizing.

VII - OUTLOOK 2019

Based on current economic and market trends [5] the Group confirms:

- The recovery in its Oil and Gas activity primarily driven by international markets
- Its targets for 2019, namely:
  - Strong increase in EBITDA, supported by market trends, additional savings as well as ongoing deployment from the Group's new competitive manufacturing routes
  - Continuous improvement in working capital requirement, beyond usual seasonal movements, with a diminishing number of days of working capital requirement on both quarterly average and end of year
  - Capex around €180 million, consistent with the needs of its renewed industrial footprint
- Based on current market trends and on the objectives outlined above, the Group would respect its banking covenant at the end of the year.

[5] Cf paragraph Information and Forward-Looking Statements

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 March 29th 2019.

Presentation of H1 2019 results

Analyst conference call / audio webcast at 6:30 pm (Paris time) to be held in English.

- To listen to the audio webcast: https://channel.royalcast.com/webcast/vallourec-en/20190724_1/
- To participate in the conference call, please dial (password to use is "Vallourec"):
    - +44 (0) 20 3003 2666 (UK)
    - +33 (0) 1 7037 7166 (France)
    - +1 212 999 6659 (USA)
- Audio webcast replay and slides will be available on the website at: http://www.vallourec.com/EN/GROUP/FINANCE

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 19,000 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.

Calendar

November 14th 2019	Release of third quarter results

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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
- Lease debt IFRS 16
- Banking covenant
- Cash flow statement
- Free cash flow
- Definitions of non-GAAP financial data

Sales volume

In thousands of tons	2019	2018	Change YoY
Q1	**571**	515	*11%*
Q2	**605**	572	*6%*
Q3		583	
Q4		694	
Total	**1,176**	**2,364**	

Forex

Average exchange rate	H1 2019	H1 2018
EUR / USD	**1.13**	1.21
EUR / BRL	**4.34**	4.14
USD / BRL	**3.84**	3.42

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Revenue by geographic region

In millions of euros	H1 2019	As % of revenue	H1 2018	As % of revenue	Change YoY	Q2 2019	As % of revenue	Q2 2018	As % of revenue	Change YoY
Europe	311	*15%*	295	*16%*	*5%*	157	*15%*	158	*16%*	*-1%*
North America	668	*32%*	604	*33%*	*11%*	330	*30%*	325	*33%*	*2%*
South America	329	*15%*	317	*17%*	*4%*	162	*15%*	177	*18%*	*-8%*
Asia & Middle East	549	*26%*	527	*29%*	*4%*	303	*28%*	263	*27%*	*15%*
Rest of World	252	*12%*	101	*5%*	*150%*	132	*12%*	59	*6%*	*124%*
Total	**2,109**	***100%***	**1,844**	***100%***	***14%***	**1,084**	***100%***	**982**	***100%***	***10%***

Revenue by market

H1 2019	As % of revenue	H1 2018	As % of revenue	Change YoY	In millions of euros	Q2 2019	As % of revenue	Q2 2018	As % of revenue	Change YoY
1,395	*66%*	1,106	*60%*	*26%*	Oil & Gas	724	*66%*	615	*63%*	*18%*
130	*6%*	179	*10%*	*-27%*	Petrochemicals	63	*6%*	86	*9%*	*-27%*
1,525	***72%***	**1,285**	***70%***	***19%***	**Oil & Gas, Petrochemicals**	**787**	***72%***	**701**	***72%***	***12%***
202	*10%*	203	*11%*	*-1%*	Mechanicals	88	*8%*	110	*11%*	*-20%*
63	*3%*	78	*4%*	*-19%*	Automotive	32	*3%*	40	*4%*	*-20%*
217	*10%*	98	*5%*	*121%*	Construction & Other	125	*12%*	49	*5%*	*155%*
482	***23%***	**379**	***20%***	***27%***	**Industry & Other**	**245**	***23%***	**199**	***20%***	***23%***
102	***5%***	**180**	***10%***	***-43%***	**Power Generation**	**52**	***5%***	**82**	***8%***	***-37%***
2,109	***100%***	**1,844**	***100%***	***14%***	**Total**	**1,084**	***100%***	**982**	***100%***	***10%***

Summary consolidated income statement

H1 2019	H1 2018	Change YoY	*In millions of euros*	Q2 2019	Q2 2018	Change YoY
2,109	**1,844**	*14%*	**REVENUE**	**1,084**	**982**	*10%*
(1,728)	(1,611)	*7%*	Cost of sales *	(871)	(852)	*2%*
381	**233**	*64%*	***Industrial margin***	**213**	**130**	*64%*
18.1%	*12.6%*	*+5.5p.p.*	*(as % of revenue)*	*19.6%*	*13.2%*	*+6.4p.p.*
(198)	(200)	*-1%*	SG&A costs *	(105)	(99)	*6%*
(14)	(15)	*na*	Other income (expense), net	(6)	(8)	*na*
169	**18**	*€151m*	**EBITDA** [6]	**102**	**23**	*€79m*
8.0%	*1.0%*	*+7.0p.p.*	*EBITDA as % of revenue*	*9.4%*	*2.3%*	*+7.1p.p.*
(126)	(134)	*-6%*	Depreciation of industrial assets	(60)	(64)	*-6%*
(29)	(19)	*na*	Amortization and other depreciation [7]	(14)	(10)	*na*
(21)	(13)	*na*	Impairment of assets	(21)	-	*na*
(11)	(57)	*na*	Asset disposals, restructuring and other	(6)	(24)	*na*
(18)	**(205)**	*€187m*	**OPERATING INCOME (LOSS)**	**1**	**(75)**	*€76m*
(122)	(105)	*16%*	Financial income (loss) [8]	(61)	(62)	*-2%*
(140)	**(310)**	*€170m*	**PRE-TAX INCOME (LOSS)**	**(60)**	**(137)**	*€77m*
(22)	-	*na*	Income tax	(14)	-	*na*
(1)	1	*na*	Share in net income (loss) of associates	-	1	*na*
(163)	**(309)**	*€146m*	**NET INCOME (LOSS) FOR THE CONSOLIDATED ENTITY**	**(74)**	**(136)**	*€62m*
(4)	2	*na*	Non-controlling interests	(3)	(1)	*na*
(167)	**(307)**	*€140m*	**NET INCOME (LOSS), GROUP SHARE**	**(77)**	**(137)**	*€60m*
(0.4)	**(0.7)**	*€0.3*	**EARNINGS PER SHARE (in €)**	**(0.2)**	**(0.3)**	*€0.1*

IFRS 16 impacts on P&L include:	*H1 2019*	*Q2 2019*
[6] Removal of operational lease expenses from EBITDA:	*+€16m*	*+€8m*
[7] Depreciation of right-of-use:	*-€14m*	*-€7m*
[8] Interest expenses on lease debt:	*-€5m*	*-€2m*

na = not applicable
(*) Before depreciation and amortization

Summary consolidated balance sheet

In millions of euros							
Assets	**30 June 2019**	**1 Jan 2019**	**31 Dec 2018**	**Liabilities**	**30 June 2019**	**1 Jan 2019**	**31 Dec 2018**
		Post IFRS 16				*Post IFRS 16*	
				Equity, Group share *	1,664	1,802	1,802
				Non-controlling interests	521	462	462
Net intangible assets	64	71	71	**Total equity**	**2,185**	**2,264**	**2,264**
Goodwill	361	358	358	**Shareholder loan**	**31**	**29**	**29**
Net property, plant and equipment	2,671	2,777	2,691	Bank loans and other borrowings (A)	1,743	1,746	1,797
Biological assets	64	60	60	Non current lease debt (D)	107	115	-
Associates	133	134	134	Employee benefits	229	214	214
Other non-current assets	153	156	156	Deferred tax liabilities	15	15	15
Deferred tax assets	266	250	250	Provisions and other long-term liabilities	70	50	50
Total non-current assets	**3,712**	**3,806**	**3,720**	**Total non-current liabilities**	**2,164**	**2,140**	**2,076**
				Provisions	111	136	136
Inventories and work-in-progress	1,192	1,135	1,135	Overdrafts and other short-term borrowings (B)	1,097	993	1,001
Trade and other receivables	684	599	599	Current lease debt (E)	28	30	-
Derivatives - assets	3	3	3	Trade payables	597	582	582
Other current assets	233	216	216	Derivatives - liabilities	23	32	32
Cash and cash equivalents (C)	729	740	740	Tax and other current liabilities	317	293	293
Total current assets	**2,841**	**2,693**	**2,693**	**Total current liabilities**	**2,173**	**2,066**	**2,044**
TOTAL ASSETS	**6,553**	**6,499**	**6,413**	**TOTAL EQUITY AND LIABILITIES**	**6,553**	**6,499**	**6,413**

***Net income (loss), Group share**	***(167)***		***(502)***

Net debt (A+B-C)	***2,111***	***1,999***	***2,058 (9)***

(9) Net debt of €2,058 million at end of December 2018 includes €59 million of financial lease debt

Lease debt (D+E)	***135***	***145***	*****

** See detailed explanation in Lease debt IFRS 16 page 15*

Information
Half-year financial statements as at June 30th 2018 and June 30th 2019 were subject to limited review by statutory auditors.
Quarterly financial statements are unaudited and not subject to any review.
Unless otherwise specified, indicated variations are expressed in comparison with the same period of the previous year.

Lease debt IFRS 16

30 June 2019	Change versus 1 Jan 2019	*In millions of euros*	1 Jan 2019 post IFRS 16	31 Dec 2018
56	*-€3m*	Financial lease debt (10)	59	59
79	*-€7m*	Operational lease (11)	86	-
135	***-€10m***	**Total lease debt (IFRS 16) (12)**	**145**	**-**

(10) Included in Net debt prior to IFRS 16; reclassified to lease debt on January 1st 2019

(11) Operational lease reported in off balance sheet items prior to IFRS 16; recognized as lease debt on January 1st 2019

(12) - New lines items (current & non-current lease debts) identified in the balance sheet under IFRS 16.
- At June 30th, 2019, lease debt of €135 million is split into: €107 million of non current lease debt
€28 million of current lease debt

Banking covenant

As defined in the banking agreements, the "banking covenant" ratio is the ratio of the Group's consolidated net debt including the shareholder loan in Brazil and the "financial lease debt" which was recorded in net debt on December 31st, 2018 (excluding "operational lease") to the Group's equity, restated for reserves of changes in fair value of financial instruments and foreign currency translation reserve. This indebtedness ratio is tested once a year on December 31st, and must be below a limit of 100% on this date.

Figures in million euros	30 June 2019	31 Dec 2018
Net debt	2,111	2,058
Financial lease debt (included in net debt on Dec 31st 2018)	56	-
Shareholder loan	31	29
Net debt restated (a)	**2,198**	**2,087**
Group Equity	2,185	2,264
Foreign currency translation reserve	582	624
Reserves - changes in fair value of financial instruments	-	8
Group equity restated (b)	**2,767**	**2,896**
Banking covenant ratio = (a) / (b)	**79%**	**72%**

Cash flow statement

H1 2019	H1 2018	*In millions of euros*	Q2 2019	Q2 2018	Q1 2019
10	(144)	Cash flow from operating activities	39	(61)	(29)
(117)	(236)	Change in operating WCR [+ decrease, (increase)]	(4)	(84)	(113)
(107)	**(380)**	**Net cash flow from operating activities**	**35**	**(145)**	**(142)**
(36)	(38)	Gross capital expenditure	(19)	(19)	(17)
31	26	Asset disposals & other items [(13)]	(2)	13	33
(112)	**(392)**	**Change in net debt [+ decrease, (increase)]**	**14**	**(151)**	**(126)**
2,111	1,934	Net debt (end of period) [(14)]	2,111	1,934	2,125

[(13)] On February 19th 2019, Sumitomo Corporation contributed in cash to a capital increase of Vallourec Star, a Vallourec's subsidiary in the United States, pro rata its holding percentage (19.47%), for an amount of $59 million (€51.8 million)

[(14)] Financial lease debt (€56 million as at June 30th 2019) previously included in the net debt is now recognized under lease debt (IFRS 16)

Free cash flow

H1 2019	H1 2018	*Change*	*In millions of euros*	Q2 2019	Q2 2018	*Change*
10	(144)	*€154m*	Cash flow from operating activities **(A)**	39	(61)	*€100 m*
(117)	(236)	*€119m*	Change in operating WCR **(B)** [+ decrease, (increase)]	(4)	(84)	*€80 m*
(36)	(38)	*€2m*	Gross capital expenditure **(C)**	(19)	(19)	-
(143)	(418)	*€275m*	**Free cash flow * (A)+(B)+(C)**	**16**	**(164)**	***€180 m***

* IFRS 16 impact on:

- H1 2019 FCF: €11 million (EBITDA impact of €16 million minus interests on lease debt of €5 million)

- Q2 2019 FCF: €6 million (EBITDA impact of €8 million minus interests on lease debt of €2 million)

Information

Half-year financial statements as at June 30th 2018 and June 30th 2019 were subject to limited review by statutory auditors.
Quarterly financial statements are unaudited and not subject to any review.
Unless otherwise specified, indicated variations are expressed in comparison with the same period of the previous year.

Definitions of non-GAAP financial data

Banking covenant: as defined in the banking agreements, the “banking covenant” ratio is the ratio of the Group’s consolidated net debt including the shareholder loan in Brazil and the “financial lease debt” which was recorded in net debt on December 31st, 2018 (excluding “operational lease”) to the Group’s equity, restated for reserves of changes in fair value of financial instruments and foreign currency translation reserve. This indebtedness ratio is tested once a year on December 31st, and must be below a limit of 100% on this date.

Data at constant exchange rates: the data presented « at constant exchange rates » 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.

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.

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.

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.

Lease debt: starting January 1st, 2019, is defined as the present value of unavoidable future lease payments.

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. Starting January 1st, 2019 net debt excludes lease debt.

Net working capital requirement: defined as working capital requirement net of provisions for inventories and trade receivables; net working capital requirement days are computed on an annualized quarterly sales basis.

Operating working capital requirement: includes working capital requirement as well as other receivables and payables.

Working capital requirement: defined as trade receivables plus inventories minus trade payables (excluding provisions).