Press release

Vallourec reports third quarter and first nine months 2019 results

Boulogne-Billancourt (France), November 14th 2019 – Vallourec, a world leader in premium tubular solutions, today announces its results for the third quarter and first nine months of 2019. The consolidated financial information was presented by Vallourec's Management Board to its Supervisory Board on November 13th 2019.

Third quarter 2019:

- Revenue: €1,060 million, up 10% year-on-year (+7% at constant exchange rates)
- EBITDA[1]: 84€ million, versus €43 million in Q3 2018
- Positive free cash flow[1]: €26 million compared to (€153) million in Q3 2018
- Net debt[1] as at September 30th 2019: €2,104 million versus €2,111 million as at June 30th 2019

Outlook for 2019:

Based on current economic and market trends[2], the Group confirms its full year targets:

- A strong increase in EBITDA with the EBITDA generation achieved in the first semester confirmed in the second one.
- A continuous improvement in working capital requirement, with a diminishing number of days on a quarterly average basis.
- Capex around €180 million.

Additionally, the Group targets a positive free cash flow in Q4.

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 (pages 4 & 5), financial position (page 6) and in appendices on pages 13,14,15 & 16
[2] Cf paragraph Information and Forward-Looking Statements

Information
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]

9M 2019	9M 2018	*Change YoY*	*In millions of euros*	Q3 2019	Q3 2018	*Change YoY*
1,771	**1,670**	*6%*	**Sales volume (k tons)**	**595**	**583**	*2%*
3,169	**2,805**	*13%*	**Revenue**	**1,060**	**961**	*10%*
253	**61**	*€192m*	**EBITDA**	**84**	**43**	*€41m*
8.0%	*2.2%*	*+5.8p.p.*	*As % of revenue*	*7.9%*	*4.5%*	*+3.4p.p.*
(227)	**(399)**	*€172m*	**Net income (loss), Group share**	**(60)**	**(92)**	*€32m*
(117)	**(571)**	*€454m*	**Free cash-flow**	**26**	**(153)**	*€179m*

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

Net debt

30 Sept. 2019	30 June 2019	*Change over the period*	*In millions of euros*	1 Jan 2019 Post IFRS 16	31 Dec 2018
2,104	**2,111**	*(€7)m*	**Net debt**	**1,999**	**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:

Vallourec delivered another set of improving results in the third quarter, with a strong year on year EBITDA increase and a positive free cash flow, demonstrating the solidity of the ongoing recovery of the Group.

The continued commitment of the teams to deploy the Transformation plan over the last years enabled Vallourec to regain competitiveness and to take advantage of the EA-MEA Oil & Gas markets rebound, as illustrated by the recent major contract won with ADNOC.

In North America, the slowdown in drilling activity reflecting continuing operators' cash discipline is amplified by inventories' adjustment by distributors, leading to lower deliveries and prices expected in the last quarter, the impact of which we intend to mitigate thanks to the flexibility of our industrial operations.

In Brazil, a pick-up in our O&G deliveries for offshore projects is expected in the latter part of the year, and should accelerate in 2020, driven by a significant increase in exploration drilling in deep off-shore fields.

In this context, we reiterate our target of a strong increase in EBITDA in 2019 with the EBITDA generation achieved in the first semester confirmed in the second one, the current slowdown in the North American Oil and Gas market being counterbalanced by an overall good level of activity in the Group's other markets, and higher savings in H2.

Vallourec's teams remain firmly focused on cash discipline and we target free cash flow for the last quarter to be positive.

Information
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.

I - CONSOLIDATED REVENUE BY MARKET

9M 2019	9M 2018	*Change YoY*	*At constant exchange rates*	*In millions of euros*	Q3 2019	Q3 2018	*Change YoY*	*At constant exchange rates*
2,280	1,991	*15%*	*11%*	Oil & Gas, Petrochemicals	755	706	*7%*	*3%*
734	585	*25%*	*26%*	Industry & Other	253	206	*23%*	*20%*
155	229	*-32%*	*-32%*	Power Generation	52	49	*6%*	*6%*
3,169	**2,805**	***13%***	***11%***	**Total**	**1,060**	**961**	***10%***	***7%***

Q3 2019 revenue amounted to €1,060 million, up 10% compared with Q3 2018 (+7% at constant exchange rates) with a positive price/mix effect of +5%, a positive volume effect of +2%, and a positive currency effect of +3%.

Over the first nine months of 2019, revenue totaled €3,169 million, up 13% versus the first nine months of 2018 (+11% at constant exchange rates). Volume effect was +6%, price/mix effect +5% and currency effect +2%.

Oil & Gas, Petrochemicals (71% of consolidated revenue)

In Q3 2019, <u>Oil & Gas</u> revenue amounted to €671 million, **up 7% year-on-year** (+4% at constant exchange rates).

- **In EA-MEA**, **Oil & Gas revenue increased significantly**, fueled primarily by a higher price/mix, and by volumes.
- **In North America**, Oil & Gas revenue decreased year-on-year due to lower volume and prices driven by the current US on-shore market slowdown.
- **In South America**, Oil & Gas revenue was down year-on-year, reflecting a low level of offshore OCTG deliveries.

Over the first nine months of 2019, **Oil & Gas** revenue totaled €2,066 million, **a strong increase or +19% year-on-year** (+16% at constant exchange rates) mainly explained by higher volumes delivered in EA-MEA together with a higher price/ mix.

In Q3 2019, <u>Petrochemicals</u> revenue amounted to €84 million, up 5% year-on-year mainly due to higher volumes sold in Middle-East Asia and South America (3% at constant exchange rates).
Over the first nine months of 2019, **Petrochemicals** revenue totaled €214 million, down 17% year-on-year (-20% at constant exchange rates), due to lower volumes sold in North America and Middle-East Asia.

Information
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.

Industry & Other (24% of consolidated revenue)

Q3 2019 revenue of €253 million increased 23% compared with Q3 2018 (+20% at constant exchange rates).

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

Over the first nine months of 2019, Industry & Other revenue totaled €734 million, up 25% year-on-year (+26% at constant exchange rates) primarily as a result of the higher revenue from iron ore. Volume of iron ore sold increased by +28% compared to the first nine months of 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 Q3 2019, almost stable year on year (+€3 million).

For the first nine months of 2019, revenue totaled €155 million, down 32% year-on-year (-32% at constant exchange rates), due to the decline in global demand for coal-fired conventional power plants.

II - CONSOLIDATED RESULTS ANALYSIS

Q3 2019 consolidated results analysis

In Q3 2019, EBITDA reached €84 million, improving by €41 million year on year with:

- Industrial margin of €177 million, up €37 million compared with Q3 2018 (up 2.1p.p.), mainly reflecting higher Oil & Gas price/mix in EA-MEA, higher mine contribution and cost savings. They largely offset lower contribution from North America.
- Sales, general and administrative costs (SG&A) at €93 million, down 6%, representing 8.8% of revenue compared with 10.3% in Q3 2018 and reflecting tight cost control.
- EBITDA included a positive €9 million IFRS 16 impact.

Excluding IFRS 16 impact and changes in provisions, Q3 2019 EBITDA amounted to €64 million, to be compared with €28 million in Q3 2018.

Operating result improved by €39 million and turned positive at +€10 million mainly thanks to a higher EBITDA. A (€6) million IFRS 16 impact (depreciation of right-of-use) is included in "Amortization and other depreciation" which amounted to (€15) million in Q3 2019 compared to (€8) million in Q3 2018.

Financial result slightly improved at (€56) million versus (€60) million in Q3 2018. It notably includes lower foreign exchanges hedging costs and a (€3) million negative IFRS 16 impact (interest expenses on lease debt).

Income tax was (€17) million in Q3 2019, mainly related to tax charges in Brazil**,** while (€2) million of tax was accounted in Q3 2018.

As a result, net loss, Group share, has been reduced by €32 million, amounting to (€60) million, compared to (€92) million in Q3 2018.

9M 2019 consolidated results analysis

For the first nine months of 2019, EBITDA reached €253 million, improving by €192 million year on year, as a result of:

- Industrial margin of €558 million, up €185 million compared with 9M 2018 (up 4.3p.p.) reflecting mainly a higher volume and price/mix in EA-MEA Oil & Gas, higher mine contribution and cost savings, offsetting lower South America Oil & Gas activity.
- Sales, general and administrative costs (SG&A) down 3% at €291 million, representing 9.2% of revenue compared with 10.7% for the first nine months of 2018.
- EBITDA included a positive €25 million IFRS 16 impact.

Excluding IFRS impact and changes in provisions, 9M 2019 EBITDA amounted to €226 million, to be compared with €32 million in the first nine months of 2018.

Operating result was (€8) million, improved by +226 million from (€234) million year on year thanks to a higher EBITDA and lower “asset disposal, restructuring and other” (reduced by €53 million). “Amortization and other depreciation” of (€44) million included a (€20) million IFRS 16 impact (depreciation of right-of-use).

Financial result was negative at (€178) million, compared to (€165) million for the first nine months of 2018, mainly due to higher interest expenses as well as to the IFRS 16 impact on lease debt for (€8) million, partly offset by a decrease in foreign exchange hedging costs.

Income tax amounted to (€39) million mainly related to Brazil, while there was almost no tax recorded for the first nine months of 2018.

As a result, net loss, Group share, has been reduced by €172 million, amounting to (€227) million, compared to (€399) million for the first nine months of 2018.

III – CASH FLOW & FINANCIAL POSITION

Cash flow from operating activities

Cash flow from operating activities in Q3 2019 was (€2) million compared to (€54) million in Q3 2018, and positive at €8 million for the first nine first months of 2019 compared to (€198) million for the first nine first months of 2018.

Operating working capital requirement

In Q3 2019, operating working capital requirement decreased by €71 million versus an increase of (€73) million in Q3 2018. It was improved year-on-year in days of sales: net working capital requirement was reduced to 105 days from 124 days at the end of Q3 2018.

For the first nine months of 2019, operating working capital requirement increased by (€46) million, versus an increase of (€309) million for the first nine months of 2018.
On a quarterly average basis over the first three quarters of 2019, net working capital requirement was reduced to **110 days of sales from 120 days** for the same period last year.

On a quarterly average basis, net working capital requirement in number of days of sales for 2019 is targeted to improve compared to the 113 days recorded in 2018, although the comparison of Q4 2019 versus Q4 2018 in days of sales is likely to be impacted by a less favorable customer mix.

Capex

Capital expenditure was (€43) million **in Q3 2019** versus (€26) million in Q3 2018 and (€79) million for the first nine months of 2019 versus (€64) million for the nine first months of 2018.

Free cash flow

In Q3 2019 the Group generated a positive free cash flow of €26 million versus (€153) million in Q3 2018, due to the higher EBITDA and an improved performance in working capital management.
Free cash flow for the first nine months of 2019 was negative at (€117) million, an improvement of €454 million compared with (€571) million for the first nine months of 2018.

Net debt and liquidity

As at September 30th 2019, net debt was slightly reduced at €2,104 million compared with €2,111 million at June 30th 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's benefits from a sound liquidity position: cash as at September 30th 2019 amounted to €1,088 million, and €1,128 million of its €2,128 million committed bank facilities were unused.

At the same date, long term debt amounted to €1,745 million and short-term debt to €1,447 million, including €105 million of commercial paper and €1,000 million drawn from the €2,128 million committed banking facilities.

The €400 million private placement was paid back on maturity (August 2, 2019).

As at September 30th 2019, the banking covenant ratio, as defined in the banking contracts [4] and tested once a year on December 31st, was estimated at 81%. IFRS 16 implementation has no impact on the banking covenant ratio.

IV – TRANSFORMATION PLAN

German restructuring plan

The new initiatives announced in February 2019 to further accelerate the path to recovery, are under deployment, notably in Germany. German headcount was reduced during Q3 by another 55 which came in addition to the 241 already achieved in H1, out of a target of 600 by the end of 2020.

Conventional Powergen business

The higher tariffs applied by Chinese authorities since June 2019 on a significant part of the steel pipes produced in Germany for the Chinese conventional powergen market make the divestiture of the Group's German conventional power business unlikely. The Group is therefore currently evaluating different industrial and social scenarios.

[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.

V – MAIN MARKET TRENDS

Oil & Gas

- **In EA-MEA**, the Group should continue to benefit from an attractive market, notably for special steel products where supply and demand situation should remain tight.
- In **North America** with operators maintaining their capex discipline, distributors are adjusting their inventories, leading to expected lower shipments and prices in Q4.
- In **South America,** a pick-up in deliveries in Brazil is expected to materialize in the latter part of the year and then to accelerate in 2020, driven by a significant increase in exploration drilling in deep offshore fields.

Industry & Other

- In **Europe**, demand remains low with pressure on volumes and prices, in particular in Germany.
- In **Brazil**, iron ore production is targeted to reach around 6 million tons in 2019.

Raw materials & currencies

- A favorable currency impact is expected in 2019.
- Regarding raw materials, scrap prices have been decreasing over the last quarters.

VI –OUTLOOK 2019

Based on current economic and market trends[5], **the Group confirms its full year targets**:

- A strong increase in EBITDA with the EBITDA generation achieved in the first semester confirmed in the second one.
- A continuous improvement in working capital requirement, with a diminishing number of days on a quarterly average basis.
- Capex around €180 million.

Additionally, the Group targets **a positive free cash flow in Q4**.

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 Q3 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/20191114_1/

- To participate in the conference call, please dial (password to use is "Vallourec"):
    - +44 (0) 20 3003 2666 (UK)
    - +33 (0) 1 7099 4740 (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

February 19th 2020	Release of 2019 full year results

For further information, please contact:

Investor relations
Jean-Marc Agabriel
Tel: +33 (0)1 49 09 39 77
Investor.relations@vallourec.com

Press relations
Héloïse Rothenbühler
Tél: +33 (0)1 41 03 77 50
heloise.rothenbuhler@vallourec.com

Individual shareholders
Toll Free Number (from France): 0 800 505 110
actionnaires@vallourec.com

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	**595**	583	*2%*
Q4		694	
Total	**1,771**	**2,364**	

Forex

Average exchange rate	9M 2019	9M 2018
EUR / USD	**1.12**	1.19
EUR / BRL	**4.36**	4.30
USD / BRL	**3.88**	3.60

Revenue by geographic region

In millions of euros	9M 2019	*As % of revenue*	9M 2018	*As % of revenue*	*Change YoY*	Q3 2019	*As % of revenue*	Q3 2018	*As % of revenue*	*Change YoY*
Europe	457	*14%*	427	*15%*	*7%*	146	*14%*	132	*14%*	*11%*
North America	981	*31%*	964	*34%*	*2%*	313	*30%*	360	*37%*	*-13%*
South America	508	*16%*	469	*17%*	*8%*	179	*17%*	152	*16%*	*18%*
Asia & Middle East	883	*28%*	767	*28%*	*15%*	334	*31%*	240	*25%*	*39%*
Rest of World	340	*11%*	178	*6%*	*91%*	88	*8%*	77	*8%*	*14%*
Total	**3,169**	***100%***	**2,805**	***100%***	***13%***	**1,060**	***100%***	**961**	***100%***	***10%***

Revenue by market

9M 2019	*As % of revenue*	9M 2018	*As % of revenue*	*Change YoY*	*In millions of euros*	Q3 2019	*As % of revenue*	Q3 2018	*As % of revenue*	*Change YoY*
2,066	*65%*	1,732	*62%*	*19%*	Oil & Gas	671	*63%*	626	*65%*	*7%*
214	*7%*	259	*9%*	*-17%*	Petrochemicals	84	*8%*	80	*8%*	*5%*
2,280	***72%***	**1,991**	***71%***	***15%***	**Oil & Gas, Petrochemicals**	**755**	***71%***	**706**	***73%***	***7%***
291	*9%*	323	*12%*	*-10%*	Mechanicals	90	*8%*	120	*13%*	*-25%*
92	*3%*	115	*4%*	*-20%*	Automotive	29	*3%*	37	*4%*	*-22%*
351	*11%*	147	*5%*	*139%*	Construction & Other	134	*13%*	49	*5%*	*173%*
734	***23%***	**585**	***21%***	***25%***	**Industry & Other**	**253**	***24%***	**206**	***22%***	***23%***
155	***5%***	**229**	***8%***	***-32%***	**Power Generation**	**52**	***5%***	**49**	***5%***	***6%***
3,169	***100%***	**2,805**	***100%***	***13%***	**Total**	**1,060**	***100%***	**961**	***100%***	***10%***

Summary consolidated income statement

9M 2019	9M 2018	Change YoY	*In millions of euros*	Q3 2019	Q3 2018	Change YoY
3,169	**2,805**	*13%*	**REVENUE**	**1,060**	**961**	*10%*
(2,611)	(2,432)	*7%*	Cost of sales *	(883)	(821)	*8%*
558	**373**	*50%*	***Industrial margin***	**177**	**140**	*26%*
17.6%	*13.3%*	*+4.3p.p.*	*(as % of revenue)*	*16.7%*	*14.6%*	*+2.1p.p.*
(291)	(299)	*-3%*	SG&A costs *	(93)	(99)	*-6%*
(14)	(13)	*8%*	Other income (expense), net	-	2	*na*
253	**61**	*€192m*	**EBITDA** (6)	**84**	**43**	*€41m*
8.0%	*2.2%*	*+5.8p.p.*	*EBITDA as % of revenue*	*7.9%*	*4.5%*	*+3.4p.p.*
(183)	(197)	*-7%*	Depreciation of industrial assets	(57)	(63)	*-10%*
(44)	(26)	*na*	Amortization and other depreciation (7)	(15)	(8)	*na*
(30)	(15)	*na*	Impairment of assets	(9)	(1)	*na*
(4)	(57)	*na*	Asset disposals, restructuring and other	7	-	*na*
(8)	**(234)**	*€226m*	**OPERATING INCOME (LOSS)**	**10**	**(29)**	*€39m*
(178)	(165)	*8%*	Financial income (loss) (8)	(56)	(60)	*-7%*
(186)	**(399)**	*€213m*	**PRE-TAX INCOME (LOSS)**	**(46)**	**(89)**	*€43m*
(39)	(2)	*na*	Income tax	(17)	(2)	*na*
(2)	2	*na*	Share in net income (loss) of associates	(1)	1	*na*
(227)	**(399)**	*€172m*	**NET INCOME (LOSS) FOR THE CONSOLIDATED ENTITY**	**(64)**	**(90)**	*€26m*
-	-	*na*	Non-controlling interests	4	(2)	*na*
(227)	**(399)**	*€172m*	**NET INCOME (LOSS), GROUP SHARE**	**(60)**	**(92)**	*€32m*
(0.5)	**(0.9)**	*€0.4*	**EARNINGS PER SHARE (in €)**	**(0.1)**	**(0.2)**	*€0.1*

IFRS 16 impacts on P&L include:	*9M 2019*	*Q3 2019*
(6) Removal of operational lease expenses from EBITDA:	*+€25m*	*+€9m*
(7) Depreciation of right-of-use:	*-€20m*	*-€6m*
(8) Interest expenses on lease debt:	*-€8m*	*-€3m*

na = not applicable
(*) Before depreciation and amortization

Information
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.

vallourec

Summary consolidated balance sheet

In millions of euros

Assets	30 Sept 2019	1 Jan 2019	31 Dec 2018	Liabilities	30 Sept 2019	1 Jan 2019	31 Dec 2018
		Post IFRS 16				*Post IFRS 16*	
				Equity, Group share *	1,588	1,802	1,802
				Non-controlling interests	526	462	462
Net intangible assets	63	71	71	**Total equity**	**2,114**	**2,264**	**2,264**
Goodwill	374	358	358	**Shareholder loan**	**20**	**29**	**29**
Net property, plant and equipment	2,664	2,777	2,691	Bank loans and other borrowings (A)	1,745	1,746	1,797
Biological assets	66	60	60	Non current lease debt (D)	101	115	-
Associates	132	134	134	Employee benefits	243	214	214
Other non-current assets	150	156	156	Deferred tax liabilities	13	15	15
Deferred tax assets	273	250	250	Provisions and other long-term liabilities	67	50	50
Total non-current assets	**3,722**	**3,806**	**3,720**	**Total non-current liabilities**	**2,169**	**2,140**	**2,076**
				Provisions	108	136	136
Inventories and work-in-progress	1,099	1,135	1,135	Overdrafts and other short-term borrowings (B)	1,447	993	1,001
Trade and other receivables	682	599	599	Current lease debt (E)	28	30	-
Derivatives - assets	6	3	3	Trade payables	561	582	582
Other current assets	231	216	216	Derivatives - liabilities	49	32	32
Cash and cash equivalents (C)	1 088	740	740	Tax and other current liabilities	332	293	293
Total current assets	**3,106**	**2,693**	**2,693**	**Total current liabilities**	**2,525**	**2,066**	**2,044**
TOTAL ASSETS	**6,828**	**6,499**	**6,413**	**TOTAL EQUITY AND LIABILITIES**	**6,828**	**6,499**	**6,413**

***Net income (loss), Group share**	***(227)***		***(502)***

Net debt (A+B-C)	***2,104***	***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)	***129***	***145***	***

** Cf. detailed explanation in Lease debt IFRS 16 page 15*

Information
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 Sept. 2019	Change versus 1 Jan 2019	*In millions of euros*	1 Jan 2019 post IFRS 16	31 Dec 2018
52	*-€7m*	Financial lease debt [10]	59	**59**
77	*-€9m*	Operational lease [11]	86	-
129	***-€16m***	**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 September 30th, 2019, lease debt of €129 million is split into: €101 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 Sept 2019	30 June 2019	31 Dec 2018
Net debt	2,104	2,111	2,058
Financial lease debt (included in net debt on Dec 31st 2018)	52	56	-
Shareholder loan	20	31	29
Net debt restated (a)	**2,176**	**2,198**	**2,087**
Group Equity	2,114	2,185	2,264
Foreign currency translation reserve	548	582	624
Reserves - changes in fair value of financial instruments	28	-	8
Group equity restated (b)	**2,690**	**2,767**	**2,896**
Banking covenant ratio = (a) / (b)	**81%**	**79%**	**72%**

Cash flow statement

9M 2019	9M 2018	*In millions of euros*	Q3 2019	Q3 2018	Q2 2019	Q1 2019
8	(198)	Cash flow from operating activities	(2)	(54)	39	(29)
(46)	(309)	Change in operating WCR [+ decrease, (increase)]	71	(73)	(4)	(113)
(38)	**(507)**	**Net cash flow from operating activities**	**69**	**(127)**	**35**	**(142)**
(79)	(64)	Gross capital expenditure	(43)	(26)	(19)	(17)
12	16	Asset disposals & other items (13)	(19)	(10)	(2)	33
(105)	**(555)**	**Change in net debt [+ decrease, (increase)]**	**7**	**(163)**	**14**	**(126)**
2,104	2,097	Financial net debt (end of period) (14)	2,104	2,097	2,111	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 (€52 million)

(14) Financial lease debt (€52 million as at September 30th 2019) previously included in the net debt is now recognized under lease debt (IFRS 16)

Free cash flow

9M 2019	9M 2018	*Change*	*In millions of euros*	Q3 2019	Q3 2018	*Change*
8	(198)	*€206m*	Cash flow from operating activities **(A)**	(2)	(54)	*€52 m*
(46)	(309)	*€263m*	Change in operating WCR **(B)** [+ decrease, (increase)]	71	(73)	*€144 m*
(79)	(64)	*-€15m*	Gross capital expenditure **(C)**	(43)	(26)	*-€17 m*
(117)	**(571)**	***€454m***	**Free cash flow * (A)+(B)+(C)**	**26**	**(153)**	***€179 m***

* IFRS 16 impact on:

- 9M 2019 FCF: €17 million (EBITDA impact of €25 million minus interests on lease debt of €8 million)

- Q3 2019 FCF: €6 million (EBITDA impact of €9 million minus interests on lease debt of €3 million)

Information
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).