vallourec

Press release

Full year 2019 results and launch of a balance sheet strengthening plan to support execution of strategy

2019: EBITDA more than doubled, Free cash flow considerably improved

Fourth quarter in line with expectations

- **EBITDA at €94 million,** supported by Oil & Gas in EA-MEA and Brazil offsetting slowdown in North America
- **Positive Free cash flow of €76 million**

Full year performance:

- Full-year revenue of **€4,173 million**, up 6% year-on-year (+5% at constant exchange rates) driven by Oil & Gas notably in EA-MEA
- **EBITDA more than doubled at €347 million versus €150 million in 2018**
- Free cash flow of (€41) million versus (€494) million in 2018
- **Net debt broadly stable at €2,031 million as of December 31st 2019** versus €1,999 million as of January 1st 2019, and banking covenant respected at 81%

Progress on Transformation Plan

- Initial target of €200 million gross costs savings over 2019-2020 to be over-achieved with gross savings of €141 million in 2019
- Decision to close Reisholz Powergen plant in Germany in H2 2020

Strategic roadmap to take Vallourec to the next level

Accelerate profitable revenue growth by capitalizing on:

- Supportive market fundamentals and strong positions in the most attractive markets
- Technological edge and brand recognition to develop new products and solutions
- Core capabilities to capture emerging opportunities for energy transition

Further enhance competitiveness through:

- Industrial excellence initiatives and increased efficiency of support functions through the Acceleration program representing €200 million in expected gross cost savings in 2021-2022
- Demand for O&G products in EA-MEA essentially allocated to new routes

Outlook for 2020: €500 million EBITDA and slightly positive Free cash flow

Based on current economic and market trends[1], the Group targets:

- EBITDA of €500 million
- Slightly positive Free cash flow
- Quarterly phasing reflecting usual low seasonality in Q1 EBITDA and Free cash flow, second half of the year significantly stronger than the first one

Launch of a balance sheet strengthening plan supporting the execution of Vallourec's strategy to unleash the Group's value creation potential

- Rights Issue of approximately €800 million, enabling to achieve a Proforma Leverage of c.2.8x at year end 2020 and to enhance the Group's credit profile
- Reference shareholders, Bpifrance and Nippon Steel Corporation ("Nippon Steel") supportive of Vallourec's strategic initiatives and undertaking to subscribe to the Rights Issue (i) pro-rata its stake for Bpifrance[2] and (ii) for an amount enabling Nippon Steel to hold approximately 10% of Vallourec's capital post-Rights Issue[3] [4]
- Vallourec has obtained a standby commitment from a syndicate of banks to underwrite the balance of the Rights Issue, subject to customary conditions.

[1] Cf paragraph Information and Forward-Looking Statements.
[2] Under the usual conditions. Bpifrance currently holds 14.6% of Vallourec's share capital.
[3] Under the usual conditions. Nippon Steel currently holds 14.6% of Vallourec's share capital.
[4] The total net amount to be newly invested, under the usual conditions, by Nippon Steel for subscription is capped at €35M.

Information

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- Refinancing of RCF[5] with commitments of €800 million providing long term sources of liquidity
- Launch of the Rights Issue expected in Q2 2020

Boulogne-Billancourt (France), February 19th 2020 – Vallourec, a world leader in premium tubular solutions, today announces its results for the fourth quarter and full year of 2019 as well as a Rights Issue and RCF refinancing to support the execution of Vallourec's strategy. The consolidated financial information was presented by Vallourec's Management Board to its Supervisory Board on February 18th 2020.

Key figures(*)

2019	2018	*Change YoY*	*In millions of euros*	Q4 2019	Q4 2018	*Change YoY*
2,291	**2,364**	*-3%*	**Sales volume (k tons)**	**520**	**694**	*-25%*
4,173	**3,921**	*6%*	**Revenue**	**1,004**	**1,116**	*-10%*
347	**150**	*€197m*	**EBITDA**	**94**	**89**	*6%*
8.3%	*3.8%*	*+4.5p.p.*	*As % of revenue*	*9.4%*	*8.0%*	*+1.4p.p.*
(17)	**(277)**	*€260m*	**Operating income (loss)**	**(9)**	**(43)**	*€34m*
(338)	**(502)**	*€164m*	**Net income (loss), Group share**	**(111)**	**(103)**	*-€8m*
(41)	**(494)**	*€453m*	**Free cash-flow**	**76**	**76**	-

(*) 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 5,6) and in appendices (pages 15, 16, 17 & 18).

Net debt

31 Dec 2019	30 Sept 2019	*Change over the period*	*In millions of euros*	1 Jan 2019 Post IFRS 16	31 Dec 2018 *
2,031	**2,104**	*-€73m*	**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:

"2019 performance marked a decisive step in Vallourec's turnaround with EBITDA more than doubling and Free cash flow considerably improving.

On the Oil & Gas market, as expected, the lower activity in US onshore was more than offset by EA-MEA Oil & Gas activity and the first step in the recovery of deep offshore in Brazil took place in Q4. In the Industry and Other markets, our revenue growth was mainly driven by higher iron ore volume and prices in Brazil.

We continued to implement our Transformation plan leading to a leaner and a more competitive group and I would like to thank all Vallourec's teams for their continued involvement, which enabled us to achieve such a result. With €141 million gross cost savings achieved in 2019, we notably outperformed our targets with €586 million gross cost savings since 2016. Our top line growth and commercial momentum evidence the benefits of a reshaped industrial footprint and the successful implementation of new routes in Brazil and China. We continued downsizing our footprint in Europe and enhancing our cost competitiveness and sourcing flexibility.

With streamlined and more competitive operations, Vallourec is entering a new phase of its development and I am confident in the Group's future success under the leadership of Edouard Guinotte."

[5] Revolving Credit Facilities

Edouard Guinotte, Newly Appointed Chairman of the Management Board as of March 16th 2020, said:

"The strong dynamic resulting from our restored competitiveness should continue in 2020, supported by the ongoing recovery of EA-MEA markets and by higher O&G sales in Brazil on which we have strong visibility. We expect Vallourec's financial performance to continue to improve with a €500 million targeted EBITDA and a slightly positive Free cash flow.

Beyond 2020, we will continue to accelerate our profitable revenue growth, capitalizing on strong positions on the most attractive and fast-growing Oil & Gas markets. We will also leverage our technological edge and brand recognition in order to develop new products and solutions for our clients. Our core capabilities also ideally position the Group to capture emerging opportunities for energy transition. We will also further enhance our competitiveness with additional €200 million in gross savings over 2021-2022 and increased utilization of our new supply routes.

In this context, we intend to strengthen Vallourec's balance sheet and extend our liquidity through a €800 million capital increase and new credit facilities of €800 million that will provide us with the financial flexibility to execute our strategy.

With restored competitiveness and a strengthened balance sheet, I am convinced that we will succeed in reinforcing our position as a world leader in premium tubular solutions and I am committed to taking Vallourec to the next level."

I - CONSOLIDATED REVENUE BY MARKET

2019	2018	Change YoY	At constant exchange rates	In millions of euros	Q4 2019	Q4 2018	Change YoY	At constant exchange rates
3,042	2,813	*8.1%*	*5.3%*	Oil & Gas, Petrochemicals	762	821	*-7.2%*	*-8.3%*
939	819	*14.7%*	*15.6%*	Industry & Other	205	235	*-12.8%*	*-10.4%*
192	289	*-33.6%*	*-33.6%*	Power Generation	37	60	*-38.3%*	*-37.7%*
4,173	**3,921**	***6.4%***	***4.6%***	**Total**	**1,004**	**1,116**	***-10.0%***	***-10.3%***

In 2019, Group revenue amounted to €4,173 million, up 6.4% versus 2018 (+5% at constant exchange rates), with EA-MEA Oil & Gas as main contributor. Volume effect was –3.1%, price/mix effect +7.7% and currency effect +1.8%.

Q4 2019 revenue amounted to €1,004 million, down 10% compared with Q4 2018 (-10% at constant exchange rates) with:

- **Volume effect of -25.1%**, mainly due to lower deliveries in North America further to the market slowdown and temporary destocking from distributors, and to lower deliveries of low-end pipes.
- **Positive price/mix effect of +14.7%** driven by Oil & Gas in EA-MEA and South America.
- Currency effect of +0.3%.

Oil & Gas, Petrochemicals (73% of annual consolidated revenue)

In 2019, **Oil & Gas** revenue totaled €2,752 million, **an increase of 11% year-on-year** (+8% at constant exchange rates).

- **In EA-MEA, Oil & Gas** revenue increased significantly fueled by volumes and price/mix.
- **In North America, Oil & Gas** revenue increased slightly year-on-year, with H1 performance offsetting H2 onshore market slowdown and destocking from distributors.
- **In South America, Oil & Gas** revenue was down year on year while Q4 witnessed a restart in the Brazilian offshore market.

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In Q4 2019, Oil & Gas revenue amounted to €686 million, **down 7% year-on-year** (-8% at constant exchange rates).

- **In EA-MEA, Oil & Gas** revenue decreased moderately mainly due to lower deliveries of low-end pipes.
- **In North America, Oil & Gas** revenue decreased due to lower volumes and prices, driven by the onshore market slowdown aggravated by a temporary destocking from distributors.
- **In South America, Oil & Gas** revenue was significantly higher, reflecting the first step of increased drilling activity for exploration in the Brazilian offshore market.

In 2019, **Petrochemicals** revenue totaled €290 million, down 16% year-on-year (-18% at constant exchange rates), due to the decrease in volumes sold in North America.

In Q4 2019, Petrochemicals revenue amounted to €76 million, down 10% year-on-year (-10% at constant exchange rates), mainly due to lower volumes sold in North America.

Industry & Other (22% of annual consolidated revenue)

In 2019, Industry & Other revenue totaled €939 million, up 15% year-on-year (+16% at constant exchange rates)

- In Brazil, higher revenue from iron ore was driven by an increase in volumes sold (6.2 million tons produced in 2019 or +34% compared to 2018) as a result of productivity improvements, and from higher iron ore prices. Lower revenue was recorded in the Industry market.
- In Europe, Industry revenue (Mechanical, Automotive, Construction) was down, in a challenging market environment.

Q4 2019 revenue amounted to €205 million decreasing by 13% compared with Q4 2018 (-10.4% at constant exchange rates). Revenue and volumes decreased in Europe, partially offset by higher iron ore sales in Brazil.

Power Generation (5% of annual consolidated revenue)

In 2019, revenue totaled €192 million, down 34% year-on-year (-34% at constant exchange rates), due to the decline in global demand for coal-fired conventional power plants.

In Q4 2019, Power Generation revenue amounted to €37 million, an anticipated decrease compared to Q4 2018 of 38% at constant exchange rates.

II - CONSOLIDATED RESULTS ANALYSIS

FY 2019 consolidated results analysis

For the full year 2019, EBITDA reached €347 million, improving by €197 million year-on-year, as a result of:

- 2.9 p.p improvement in industrial margin to €738 million, up €159 million compared to FY 2018, mainly driven by higher price/mix in Oil & Gas in EA-MEA. Together with a higher contribution from the iron ore mine and costs savings, it largely offsetted the lower contribution from North America.
- 7% decrease in sales, general and administrative costs (SG&A) to reach (€378) million, representing 9.1% of revenue compared with 10.3% for the FY 2018.

A net decrease in provisions of €21 million (versus €56 million in 2018) was included in EBITDA, mainly reflecting provisions released to offset losses recorded on the sale of depreciated inventories over the same period.

IFRS 16 impact on EBITDA for the full year was a positive €33 million.

Operating result was (€17) million, improving by +€260 million year-on-year thanks to:

- A higher EBITDA.
- Lower impairment charges at (€30) million in 2019 versus (€53) million in 2018. 2019 charges were mainly related to an asset dedicated to nuclear activity in China.
- Lower charges for "assets disposal, restructuring and other" at (€27) million, reduced by €47 million versus 2018. 2019 charges mainly reflected the decision to close the Reisholz Powergen plant in Germany.
- "Amortization and other depreciation" at (€58) million, of which (€27) million was due to the impact of IFRS 16 (depreciation of right-of-use).

Financial result was negative at (€244) million, compared to (€220) million for the full year 2018, mainly due to (i) higher interest expenses, (ii) the IFRS 16 impact on interest expenses on lease debt for (€11) million, (iii) partly offset by a decrease in foreign exchange hedging costs.

Income tax amounted to (€75) million mainly in Brazil.

As a result, net loss, Group share, has been reduced by €164 million, amounting to (€338) million, compared to (€502) million for the full year of 2018.

Q4 2019 consolidated results analysis

In Q4 2019, EBITDA reached €94 million, improving by 6% year-on-year with:

- Industrial margin of €180 million (17.9% of revenues), slightly down (0.6 p.p.) compared to Q4 2018 (18.5%), due to lower contribution from North America. This has been partly compensated by the increased margin from South America, reflecting higher contribution from Oil & Gas in Brazil and from the iron ore mine.
- Sales, general and administrative costs (SG&A) at (€87) million, down (18%), representing 8.7% of revenue compared with 9.5% in Q4 2018 and reflecting tight cost control.

A net decrease in provisions of €19 million (versus €27 million in 2018) was included in EBITDA, mainly reflecting provisions released to offset losses recorded on the sale of depreciated inventories over the same period.

IFRS 16 impact on Q4 EBITDA was a positive €8 million.

Operating result improved by €34 million to (€9) million, thanks to a higher EBITDA and including a charge for "assets disposal, restructuring and other" at (€23) million, mainly reflecting the decision to close Reisholz Powergen plant in Germany. A (€7) million IFRS 16 impact (depreciation of right-of-use) was included in "amortization and other depreciation" which amounted to (€14) million in Q4 2019 compared to (€8) million in Q4 2018.

Financial result slightly deteriorated at (€66) million versus (€55) million in Q4 2018, due to a (€3) million negative IFRS 16 impact (interest expenses on lease debt) and higher interest expenses.

Income tax was (€36) million in Q4 2019, mainly related to tax charges in Brazil.

As a result, net loss, Group share, slightly increased by (€8) million, amounting to (€111) million, compared to (€103) million in Q4 2018.

III – CASH FLOW & FINANCIAL POSITION

Cash flow from operating activities

Cash flow from operating activities stood at (€6) million for the full year 2019 compared to (€210) million for the full year 2018 and at **(€14) million in Q4 2019** compared to (€13) million in Q4 2018.

Operating working capital requirement

For the full year 2019, operating working capital requirement decreased by €124 million, versus an increase of (€155) million for the full year 2018. **In line with our objectives, on a quarterly average basis over the full year 2019, net working capital requirement was reduced to 106 days of sales from 113 days in 2018.**

In Q4 2019, operating working capital requirement decreased by €170 million versus a decrease of €154 million in Q4 2018. Net working capital in days of sales stood at 95 days at the end of Q4 2019, a similar level compared to Q4 2018 (94 days of sales).

Capex

Gross Capital expenditure was (€159) million for the full year 2019 versus (€129) million for the full year 2018 and stood at (€80) million in Q4 2019 versus (€65) million in Q4 2018.

Free cash flow

Free cash flow for the **full year of 2019** was negative at (€41) million, **an improvement of €453 million** compared to (€494) million for the full year of 2018.

In Q4 2019 the Group generated a positive Free cash flow of €76 million, stable versus Q4 2018.

Net debt and liquidity

As of December 31st 2019, net debt was reduced to €2,031 million compared with €2,104 million as of September 30th 2019. It amounted to €1,999 million as of January 1st 2019. As a reminder, €59 million was reclassified from net debt to lease debt on January 1st 2019, as a result of the application of IFRS 16 (see table on page 18).

Cash as of December 31st 2019 amounted to €1,794 million, and €426 million out of the Group's €2,128 million committed bank facilities were unused.

As of the same date, long-term debt amounted to €1,747 million and short-term debt to €2,077 million, including €110 million of commercial paper and €1,702 million drawn from the €2,128 million committed banking facilities.

As of December 31st 2019, the banking covenant ratio, as defined in the banking contracts and tested once a year on December 31st, stood at 81%. IFRS 16 implementation has no impact on the banking covenant ratio.

IV – RECENT ESG AWARDS

Reflecting its strong ESG commitments, Vallourec obtained very favorable rankings by environmental rating agencies in 2019:

- CDP (Carbon Disclosure Program) included Vallourec in the **"A List" for carbon management**, ranking the Group among the 2% best performers worldwide.
- **MSCI upgraded Vallourec to "AA"** reflecting successful achievements.
- Sustainalytics ranked Vallourec **among the top 15 best performing companies** in the "Oil & Gas Equipment sector" (116 peers).

A committee of the Supervisory Board dedicated to monitor ESG matters was formed in February 2019.

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V – A SUCCESSFULLY EXECUTED TRANSFORMATION PLAN LEADING TO A LEANER AND MORE COMPETITIVE GROUP

Announced cost savings target overachieved

The initial 2016-2020 gross cost savings target of €400 million was surpassed in 2018 with €445 million achieved and **the €200 million additional savings plan for 2019-2020 will also be overachieved** with €141 million savings realized in 2019.

Since 2014, total headcount has been reduced by 21% to 18,827 at end of 2019, a reduction of 35% in Europe and of 19% in Brazil.

In 2019, Group headcount was reduced by 1.8%, from 19,164 employees to 18,827, with a stronger reduction in Europe (-6.3%). **In Germany, headcount was reduced in 2019 by 392 employees as a result of the initiatives announced in February 2019 targeting a reduction of 600 by the end of 2020.**

As a result of these measures and the deployment of new routes, manufacturing[6] and SG&A costs per ton have been reduced by c.40% since 2016 to €1,035/t.

Radical downsizing of our European footprint

Vallourec's European industrial footprint has been radically downsized to 2 main production hubs. Europe has now been set up as a center of excellence for advanced premium products, serving local markets competitively while providing a flexible production route with a short lead-time for exports.

In 2019, **the Group decided to close its Reisholz mill (Germany), which specialized in tubes for conventional power plants. The closure is expected to be effective in the second half of 2020.**

Successful deployment of new competitive routes

New supply routes have been deployed leveraging cost-competitive production hubs in Brazil and Asia.

Brazilian operations have been rationalized and significant savings realized. Exports now represent approximately 60% of VSB's total production.

Tianda, acquired at the end of 2016, has been fully integrated within Vallourec's global network. The share of premium volume rolled in Tianda has increased from 4% in 2017 to 20% in 2019 and Tianda products are offered in recently awarded contracts in the Middle East and North Africa.

The utilization rate of new routes for premium Oil & Gas EA-MEA demand has increased from 19% in 2015 to 55% in 2019, resulting in an increase in premium products exported from VSB and Tianda from 40kt in 2015 to c.300kt in 2019.

A leaner, state of the art and flexible industrial set up

The cost savings, the rationalization of the industrial footprint with the share of Europe in total capacity down to 25% from 45% and the deployment of new routes have led to a significant decrease in the break-even point[7] by 25% since 2017.

At the same time, commercial agility has considerably improved thanks to a flexible sourcing from highly competitive production hubs in Brazil and Asia.

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[6] Excluding raw materials.
[7] Breakeven is defined as sales volume required to cover variable and fixed cost included in EBITDA and capex requirements.

Restored competitiveness already translating into accelerating commercial momentum

The €900 million mega-contract recently awarded by ADNOC testifies to Vallourec's ability to offer competitive global solutions to clients supported by innovative digital services. Vallourec will deliver a comprehensive range of products from API to high-end premium products supplied from Europe, Brazil and China, for both onshore and offshore drilling and conventional and complex wells.

After doubling between 2017 and 2018, Vallourec's OCTG tender hit ratio in EA-MEA[8] continued to improve in 2019 thanks to the utilization of the new routes.

In Brazil, we have signed agreements with Petrobras and other large customers such as Shell and TechnipFMC, demonstrating our positioning as supplier of choice.

VI – STRATEGIC ROADMAP TO TAKE VALLOUREC TO THE NEXT LEVEL

Leverage supportive market fundamentals and strong positions in the most attractive markets

- In **Brazil**, **Vallourec benefits from a highly competitive position** with expertise in what is expected to be the fastest-growing offshore market in the coming years. The Group is a supplier of choice by Petrobras and the IOCs operating in Brazil.
- **Vallourec's iron ore mine in Brazil** has a best-in-class cost positioning and its annual production capacity will be expanded by 3Mt to maximize EBITDA generation. The corresponding capex of €65 million over 2020-2021 has a pay-back of c.2.5 years.
- In **EA-MEA**, Vallourec will leverage its renewed competitiveness in a market driven by a restart of final investment decisions with a significant offshore component. **The strength of Vallourec's positioning is confirmed by bookings up 16% in 2019.**
- In **North America**, **Vallourec owns a fully integrated local platform with flexible operations** enabling the Group to adapt to a volatile market that is now stabilizing.

Capitalize on technological edge and brand recognition to develop new products and solutions

The Group also intends to capture incremental revenues by **leveraging its technological edge and brand recognition** to develop new products and solutions.

New VAM® connections for premium O&G markets have already been rapidly adopted by clients across the globe.

New digital solutions, including digital (Smartengo) are already on the market and contribute to Vallourec commercial differentiation.

Leverage core capabilities to capture emerging opportunities from energy transition

The Group is preparing for the future by developing sustainable solutions around energy transition opportunities in the following areas: geothermal, offshore wind, carbon capture utilization and storage ("CCUS") and hydrogen.

The Group will leverage its industrial expertise, design capabilities, engineering know-how and relationships with customers at the forefront of the energy transition to capture those opportunities.

Vallourec has set up a dedicated organization to drive innovation projects related to energy transition and expects those opportunities to result in significant revenue by 2025.

Launch Acceleration program to reinforce competitiveness

The Group is committed to further developing its competitiveness with a new program, Acceleration, targeting additional gross savings of €200 million over 2021-2022, through both transverse and regional initiatives.

[8] Calculated on open tenders awarded to date

Transverse initiatives will focus on strengthening industrial excellence to boost performance and reliability and increasing the efficiency of support functions and SG&A.

Regional initiatives will encompass the following:

- In Europe: the Group will benefit from the full year impact of the German savings plan, with « One mill » concept implementation, and Reisholz mill closure in H2 2020 (additional headcount reduction of c.200 employees). The Group will also implement further product portfolio optimization measures and reinternalize some outsourced services.
- In Brazil, the Group will continue to improve the Jeceaba site and develop the new « Mini-mill » program on its Barreiro site.
- In North America, the Group will upgrade performance of maintenance, debottleneck its finishing operations and reinternalize some outsourced services.

Allocate all demand increase for premium O&G in EAMEA to new routes

Following the successful ramp up of premium O&G EA-MEA volumes supplied by Brazil and Asia from c.40kt in 2015 to c.300 kt in 2019, Vallourec intends to further leverage the competitive advantage offered by these new routes. Future Oil & Gas growth in EA-MEA will be essentially served by the new routes, corresponding to volume growth from c.300 kt to c.500 kt in 2024.

This ambition will be enabled by the completion of the industrialization plan for premium grades in Tianda and by the certifications by Majors and NOCs of Tianda and VSB. The premium production ratio of Tianda will also increase from 20% in 2019 to c.40% in 2024.

VII – 2020 MAIN MARKET TRENDS

Oil & Gas

- **EA-MEA** enters 2020 with a solid backlog, resulting from increased bookings recorded in 2019, including notably for high alloy products which benefit from the attractive tight market situation.

- In **North America**, although operators are maintaining capex discipline, we expect a rebound in volumes in line with consumption in Q1 2020 after the strong destocking in Q4 2019, to be followed by a recovery in prices, which should bottom out in Q1 2020. The Group believes there could be an opportunity for market share gains following the local OCTG industry consolidation.

- In **South America** the number of drilled wells is forecasted to significantly increase in Brazil driven by the exploratory drilling activities of Petrobras and IOCs. Deliveries of premium OCTG are expected to sharply rise starting in Q2.

Industry & Other

- In **Europe**, demand and prices are expected to remain low, particularly in Germany.
- In **Brazil**, we target to reach production levels at our iron ore mine in line with 2019 levels, while iron prices have slightly decreased and remain dependent on China's imports.

Coronavirus epidemic

- The economic and financial fallout from the coronavirus epidemic in China, where Vallourec operates, is not foreseeable at this time. Following a Chinese New Year vacation shutdown extended by one week, our Chinese mills reopened on February 10th.

VIII – OUTLOOK

2020 guidance

Based on current economic and market trends[9], **the Group targets for 2020**:

- An EBITDA of €500 million
- A slightly positive Free cash flow
  - Capex of €200 million
  - A net working capital requirement reduction to c.100 days of sales on an average quarterly basis

The quarterly phasing of EBITDA and Free cash flow will reflect the usual low seasonality in Q1. The second half of the year will be significantly stronger than the first half in terms of EBITDA and Free cash flow generation.

Beyond 2020 cash flow generation levers

EBITDA is expected to grow as a result of topline growth reflecting supportive trends and improved commercial competitiveness as well as further cost reduction with the implementation of the Acceleration program.

In addition to EBITDA growth, Free cash flow generation will also be enhanced by:

- An annualized c.€50 million reduction in interest charges compared to 2019 resulting from:
  - c.€25 million from the combined Rights Issue and RCF refinancing
  - c.€25 million from exercise of call option on a lease contract in Brazil, with an additional positive €6-8m impact on EBITDA
- Reduced restructuring charges
- Further working capital reduction in days of sales
- Contained capex within a €200-250 million annual envelope

IX – RIGHTS ISSUE AND RCF REFINANCING TO SUPPORT TURNAROUND AND EXECUTION OF VALLOUREC STRATEGY

Vallourec plans to strengthen its balance sheet and extend its liquidity through a combined Rights Issue and Revolving Credit Facility ("RCF") refinancing.

Proceeds of the Rights Issue will be used to deleverage to c.2.8x[10] at year-end 2020 (corresponding to a net debt of c.€1.4 billion proforma for the rights issue) versus 5.9x in 2019 including the exercise of call option on a lease contract in Brazil ("DBOT") for up to €100 million.

Pro forma for the Rights Issue and RCF refinancing, Vallourec would have had €1.7 billion of liquidity as of 31/12/2019, consisting of approximately €900 million in cash and an €800 million committed undrawn credit facility.

Rights Issue

Vallourec intends to raise approximately €800 million of new equity through a capital increase with preferential subscription rights (the "**Rights Issue**") to significantly deleverage its balance sheet, reduce its financial charges by c. €50 million per annum compared to 2019 and gain additional flexibility to implement its strategic plan.

Vallourec's key reference shareholders Bpifrance and Nippon Steel have undertaken to subscribe to the Rights Issue (i) pro-rata to its stake for Bpifrance and (ii) for an amount enabling Nippon Steel to hold approximately 10% of Vallourec's capital upon completion of the Rights Issue.[11]

Vallourec has obtained a standby commitment from a syndicate of banks to underwrite the balance of the Rights Issue, subject to customary conditions.

[9] Cf paragraph Information and Forward-Looking Statements
[10] At constant foreign exchange rates and including an accounting impact on net debt in 2020 of the exercise of call option on lease contract in Brazil and the transaction-related expenses
[11] The total net amount to be newly invested, under the usual conditions, by Nippon Steel for subscription is capped at €35M and that of Bpifrance is capped at €120M.

The necessary resolutions for the Rights Issue will be submitted to the vote of the Vallourec shareholders at the annual Shareholders' Meeting to be held on 6 April 2020. Bpifrance and Nippon Steel have committed to vote in favor of the resolutions related to the Rights Issue.

The Rights Issue is expected to be launched in Q2 2020, subject to market conditions and the approval of the prospectus by the French Financial Markets Authority (Autorité des marchés financiers) (the "**AMF**").

RCF refinancing

Vallourec also announces the refinancing of its credit facilities with a new credit facility of €800 million committed by its relationship banks. The new RCF, the availability of which is subject to the completion of the Rights Issue, will provide Vallourec with a long-term source of liquidity with a maturity of 4 years and a 1-year extension option. The new facility will be subject to a covenant to maintain a gearing ratio of a maximum of 100%, similar to Vallourec's current facilities.

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This press release constitutes a public disclosure of inside information by Vallourec under Regulation (EU) 596/2014 (April 16, 2014) and Implementing Regulation (EU) No 2016/1055 (June 10, 2016).

Forward-Looking Statements

This press release may include forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms as "believe", "expect", "anticipate", "may", "assume", "plan", "intend", "will", "should", "estimate", "risk" and or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, Vallourec's results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which they operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. 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 29, 2019 under number D.19-0231. Readers are cautioned that forward-looking statements are not guarantees of future performance and that Vallourec's or any of its affiliates' actual results of operations, financial condition and liquidity, and the development of the industries in which they operate may differ materially from those made in or suggested by the forward-looking statements contained in this press release. In addition, even if Vallourec's or any of its affiliates' results of operations, financial condition and liquidity, and the development of the industries in which they operate are consistent with the forward-looking statements contained in this press release, those results or developments may not be indicative of results or developments in subsequent periods.

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This press release does not, and shall not, in any circumstances constitute a public offering or an invitation to the public in connection with any offer.

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The distribution of this press release in certain countries may constitute a breach of applicable law. The information contained in this press release does not constitute an offer of securities for sale in the United States, Canada, Australia or Japan.

Presentation of Q4 and FY 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/20200219_2/

- 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 Vallourec's website at:

    https://www.vallourec.com/en/hub-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

April 6, 2020	Shareholders' Annual Meeting
May 13, 2020	Release of the first quarter of 2020 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	**595**	583	*2%*
Q4	**520**	694	*-25%*
Total	**2,291**	**2,364**	*-3%*

Forex

Average exchange rate	2019	2018
EUR / USD	**1.12**	1.18
EUR / BRL	**4.41**	4.31
USD / BRL	**3.94**	3.65

Revenue by geographic region

In millions of euros	2019	As % of revenue	2018	As % of revenue	Change YoY	Q4 2019	As % of revenue	Q4 2018	As % of revenue	Change YoY
Europe	**595**	*14.3%*	587	*15.0%*	*1%*	**138**	*13.7%*	159	*14.3%*	*-13%*
North America	**1,215**	*29.1%*	1,281	*32.7%*	*-5%*	**234**	*23.3%*	317	*28.4%*	*-26%*
South America	**702**	*16.8%*	625	*15.9%*	*12%*	**194**	*19.3%*	156	*14.0%*	*24%*
Asia & Middle East	**1,222**	*29.3%*	1,088	*27.7%*	*12%*	**339**	*33.8%*	321	*28.7%*	*6%*
Rest of World	**439**	*10.5%*	340	*8.7%*	*29%*	**99**	*9.9%*	163	*14.6%*	*-39%*
Total	**4,173**	***100%***	**3,921**	***100%***	***6%***	**1,004**	***100%***	**1,116**	***100%***	***-10%***

Revenue by market

2019	As % of revenue	2018	As % of revenue	Change YoY	In millions of euros	Q4 2019	As % of revenue	Q4 2018	As % of revenue	Change YoY
2,752	*65.9%*	2,469	*63.0%*	*11%*	Oil & Gas	686	*68.3%*	737	*66.0%*	*-7%*
290	*7.0%*	344	*8.8%*	*-16%*	Petrochemicals	76	*7.6%*	84	*7.5%*	*-10%*
3,042	***72.9%***	**2,813**	***71.7%***	***8%***	**Oil & Gas, Petrochemicals**	**762**	***75.9%***	**821**	***73.5%***	***-7%***
368	*8.8%*	469	*11.9%*	*-22%*	Mechanicals	77	*7.7%*	146	*13.1%*	*-47%*
115	*2.8%*	148	*3.8%*	*-22%*	Automotive	23	*2.3%*	34	*3.1%*	*-32%*
456	*10.9%*	202	*5.2%*	*126%*	Construction & Other	105	*10.4%*	55	*4.9%*	*91%*
939	***22.5%***	**819**	***20.9%***	***15%***	**Industry & Other**	**205**	***20.4%***	**235**	***21.1%***	***-13%***
192	***4.6%***	**289**	***7.4%***	***-34%***	**Power Generation**	**37**	***3.7%***	**60**	***5.4%***	***-38%***
4,173	***100%***	**3,921**	***100%***	***6%***	**Total**	**1,004**	***100%***	**1,116**	***100%***	***-10%***

Summary consolidated income statement

2 019	2 018	Change YoY	*In millions of euros*	Q4 2019	Q4 2018	Change YoY
4,173	**3,921**	*6%*	**REVENUE**	**1,004**	**1,116**	*-10%*
(3,435)	(3,342)	*3%*	Cost of sales *	(824)	(910)	*-9%*
738	**579**	*27%*	***Industrial margin***	**180**	**206**	*-13%*
17.7%	*14.8%*	*+2.9p.p.*	*(as % of revenue)*	*17.9%*	*18.5%*	*-0.6p.p.*
(378)	(405)	*-7%*	SG&A costs *	(87)	(106)	*-18%*
(13)	(24)	*-46%*	Other income (expense), net	1	(11)	*na*
347	**150**	*€197m*	**EBITDA (10)**	**94**	**89**	*6%*
8.3%	*3.8%*	*+4.5p.p.*	*EBITDA as % of revenue*	*9.4%*	*8.0%*	*+1.4p.p.*
(249)	(266)	*-6%*	Depreciation of industrial assets	(66)	(69)	*-4%*
(58)	(34)	*na*	Amortization and other depreciation (11)	(14)	(8)	*na*
(30)	(53)	*na*	Impairment of assets	-	(38)	*na*
(27)	(74)	*na*	Asset disposals, restructuring and other	(23)	(17)	*na*
(17)	**(277)**	*€260m*	**OPERATING INCOME (LOSS)**	**(9)**	**(43)**	*€34m*
(244)	(220)	*11%*	Financial income (loss) (12)	(66)	(55)	*20%*
(261)	**(497)**	*€236m*	**PRE-TAX INCOME (LOSS)**	**(75)**	**(98)**	*€23m*
(75)	(5)	*na*	Income tax	(36)	(3)	*€33m*
(4)	2	*na*	Share in net income (loss) of associates	(2)	-	*na*
(340)	**(500)**	*€160m*	**NET INCOME (LOSS) FOR THE CONSOLIDATED ENTITY**	**(113)**	**(101)**	*-€12m*
2	(2)	*na*	Non-controlling interests	2	(2)	*na*
(338)	**(502)**	*€164m*	**NET INCOME (LOSS), GROUP SHARE**	**(111)**	**(103)**	*-€8m*
(0.7)	**(1.1)**	*€0.4*	**EARNINGS PER SHARE (in €)**	**(0.2)**	**(0.2)**	-

na = not applicable
(*) Before depreciation and amortization

IFRS 16 impacts on P&L include:	*FY 2019*	*Q4 2019*
(10) Removal of operational lease expenses from EBITDA:	*+€33m*	*+€8m*
(11) Depreciation of right-of-use:	*-€27m*	*-€7m*
(12) Interest expenses on lease debt:	*-€11m*	*-€3m*

Summary consolidated balance sheet

In millions of euros							
Assets	**31 Dec 2019**	**1 Jan 2019**	**31 Dec 2018**	**Liabilities**	**31 Dec 2019**	**1 Jan 2019**	**31 Dec 2018**
	Post IFRS 16	*Post IFRS 16*			*Post IFRS 16*	*Post IFRS 16*	
				Equity, Group share *	1,467	1,802	1,802
				Non-controlling interests	513	462	462
Net intangible assets	63	71	71	**Total equity**	**1,980**	**2,264**	**2,264**
Goodwill	364	358	358	**Shareholder loan**	**21**	**29**	**29**
Net property, plant and equipment	2,642	2,777	2,691	Bank loans and other borrowings (A)	1,747	1,746	1,797
Biological assets	62	60	60	Non current lease debt (D)	104	115	-
Associates	129	134	134	Employee benefits	228	214	214
Other non-current assets	132	156	156	Deferred tax liabilities	9	15	15
Deferred tax assets	249	250	250	Provisions and other long-term liabilities	61	50	50
Total non-current assets	**3,641**	**3,806**	**3,720**	**Total non-current liabilities**	**2,149**	**2,140**	**2,076**
				Provisions	121	136	136
Inventories and work-in-progress	988	1,135	1,135	Overdrafts and other short-term borrowings (B)	2,077	993	1,001
Trade and other receivables	638	599	599	Current lease debt (E)	30	30	-
Derivatives - assets	7	3	3	Trade payables	580	582	582
Other current assets	237	216	216	Derivatives - liabilities	18	32	32
Cash and cash equivalents (C)	1,794	740	740	Tax and other current liabilities	329	293	293
Total current assets	**3,664**	**2,693**	**2,693**	**Total current liabilities**	**3,155**	**2,066**	**2,044**
TOTAL ASSETS	**7,305**	**6,499**	**6,413**	**TOTAL EQUITY AND LIABILITIES**	**7,305**	**6,499**	**6,413**

***Net income (loss), Group share**	***(338)***		***(502)***

Net debt (A+B-C)	***2,031***	***1,999***	***2,058 (13)***

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

Lease debt (D+E)	***134***	***145***	***

** Cf. detailed explanation in Lease debt IFRS 16 page 18*

Information
Quarterly statements are unaudited and not subject to any review. Audit procedures have been carried out for the full year consolidated financial statements. Final certification will take place before the URD "Universal Registration Document" is filed with the AMF, by mid-March 2020. Unless otherwise specified, indicated variations are expressed in comparison with the same period of the previous year.
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Lease debt IFRS 16

31 Dec 2019	*Change versus 1 Jan 2019*	*In millions of euros*	1 Jan 2019 post IFRS 16	31 Dec 2018
50	*-€9m*	Financial lease debt [14]	59	**59**
84	*-€2m*	Operational lease [15]	86	-
134	***-€11m***	**Total lease debt (IFRS 16)** [16]	**145**	**-**

[14] Included in Net debt prior to IFRS 16; reclassified to lease debt on January 1st 2019

[15] Operational lease reported in off balance sheet items prior to IFRS 16; recognized as lease debt on January 1st 2019

[16] - New lines items (current & non-current lease debts) identified in the balance sheet under IFRS 16.
- At December 31st, 2019, lease debt of €134 million is split into: €104 million of non current lease debt
€30 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	31 Dec 2019	30 Sept 2019	31 Dec 2018
Net debt	2,031	2,104	2,058
Financial lease debt (included in net debt on Dec 31st 2018)	50	52	-
Shareholder loan	21	20	29
Net debt restated (a)	**2,102**	**2,176**	**2,087**
Group Equity	1,980	2,114	2,264
Foreign currency translation reserve	608	548	624
Reserves - changes in fair value of financial instruments	-4	28	8
Group equity restated (b)	**2,584**	**2,690**	**2,896**
Banking covenant ratio = (a) / (b)	**81%**	**81%**	**72%**

Cash flow statement

2019	2018	*In millions of euros*	Q4 2019	Q4 2018	Q3 2019	H1 2019
(6)	(210)	Cash flow from operating activities	(14)	(13)	(2)	10
124	(155)	Change in operating WCR [+ decrease, (increase)]	170	154	71	(117)
118	**(365)**	**Net cash flow from operating activities**	**156**	**141**	**69**	**(107)**
(159)	(129)	Gross capital expenditure	(80)	(65)	(43)	(36)
9	(22)	Asset disposals & other items [17]	(3)	(37)	(19)	31
(32)	**(516)**	**Change in net debt [+ decrease, (increase)]**	**73**	**39**	**7**	**(112)**
2,031	2,058	Financial net debt (end of period) [18]	2,031	2,058	2,104	2,111

[17] On February 19th 2019, Sumitomo Corporation contributed in cash to a capital increase of Vallourec Star, a Vallourec subsidiary in the United States, pro rata its holding percentage (19.47%), for an amount of $59 million (€52 million)

[18] Financial lease debt (€50 million as at December 31st 2019) previously included in the net debt is now recognized under lease debt (IFRS 16)

Free cash flow

2019	2018	*Change*	*In millions of euros*	Q4 2019	Q4 2018	*Change*
(6)	(210)	*€204m*	Cash flow from operating activities **(A)**	(14)	(13)	*-€1 m*
124	(155)	*€279m*	Change in operating WCR **(B)** [+ decrease, (increase)]	170	154	*€16 m*
(159)	(129)	*-€30m*	Gross capital expenditure **(C)**	(80)	(65)	*-€15 m*
(41)	(494)	*€453m*	**Free cash flow * (A)+(B)+(C)**	**76**	**76**	**-**

* IFRS 16 impact on:

- FY 2019 FCF: €22 million (EBITDA impact of €33 million minus interests on lease debt of €11 million)

- Q4 2019 FCF: €5 million (EBITDA impact of €8 million minus interests on lease debt of €3 million)

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.

Proforma Leverage: defined as Net debt (after completion of the Rights Issue and accounting impact of exercise of call option on lease contract in Brazil) on EBITDA

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