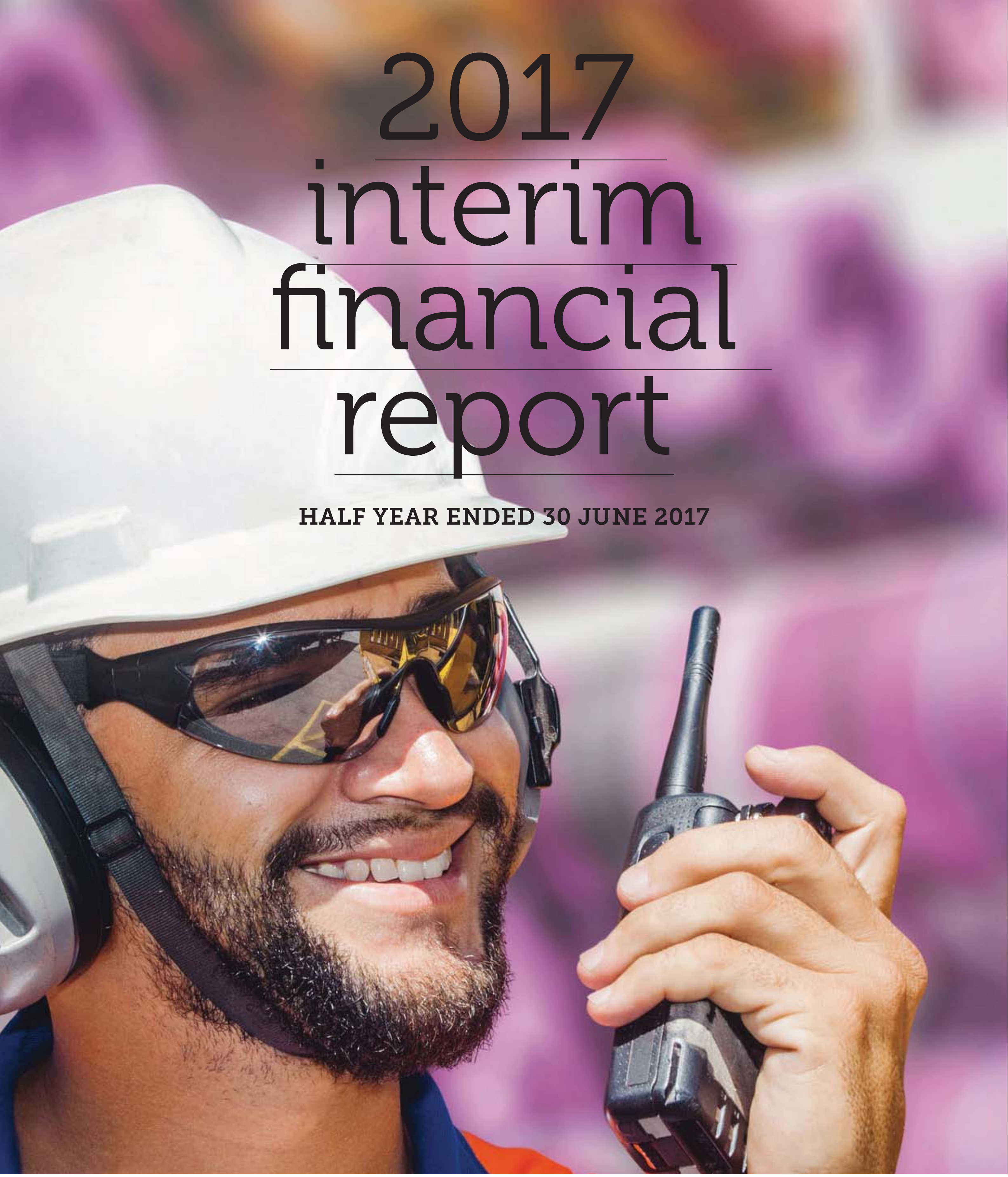
# 2017 interim financial report

**HALF YEAR ENDED 30 JUNE 2017**



vallourec

SMART TUBULAR SOLUTIONS

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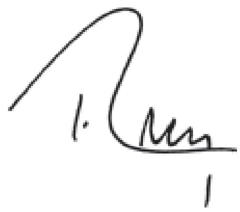
# Statement by the person responsible for the interim financial report

To the best of my knowledge, I certify that the condensed half-year financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and profits or loss of Vallourec and all consolidated companies, and that the half-year activity report attached presents a true and fair view of the significant events that occurred during the first six months of the financial year and of their impact on the half-year financial statements, of the main transactions between related parties and that it describes the main risks and uncertainties for the remaining six months of the financial year.

Boulogne-Billancourt, 28 July 2017



Philippe Crouzet

Chairman of the Management Board

# Half-year activity report

**In the first half of 2017, the Group recorded consolidated revenue of €1,716 million, up 19.7% (up 2.4% at constant scope and exchange rates) compared with consolidated revenue of €1,434 million in the first half of 2016. The scope effect (integration of Tianda, full consolidation of VSB and divestiture of VHET) was +11.7%[1] and the exchange rate effect was +5.6%. EBITDA totaled -€18 million to be compared with -€104 million in H1 2016. Net result, Group share, was a loss of -€254 million in the first half of 2017, compared with a loss of -€415 million in the first half of 2016.**

## Vallourec market environment

### 1. Oil & Gas

Oil & Gas prices declined in 2017. The volatility is leading oil and gas operators to postpone E&P Capex.

At the end of the first half of 2017, Brent, WTI and gas prices decreased due to the fear of a delayed rebalancing of the supply demand equation.

On 30 June 2017 prices were down compared with the end of 2016 [2]: WTI reached USD 46.04 on 30 June 2017 compared with USD 53.72 on 30 December 2016, or a 14.3% decrease, and gas prices (Henry Hub) stood at USD 2.98 on 30 June 2017 *vs.* USD 3.71 on 30 December 2016, or a 20% decrease.

**In the United States**, the active rig count [3] continued to increase strongly over H1 2017. At the end of June 2017, it reached 940 units, compared with 658 at the end of 2016 (+42.9%) and 431 at the end of June 2016 (+118%). On average, the active rig count rose 67.2% between H1 2016 and H1 2017, and +53% between H2 2016 and H1 2017. At the end of H1 2017, 80% of the rigs were for oil drilling, stable compared with the end of 2016 and H1 2016.

On 30 June 2017, the price of natural gas stood at USD 3.19/Mbtu. Over Q1 2017, gas prices (Henry Hub) reached an average of USD 3.1/Mbtu [4] (US dollar per million British thermal units), compared with an average of USD 2.1/Mbtu in H1 2016.

Between the end of 2016 and June 2017, the rig count increase resulted in increased OCTG shipments. This momentum has enabled seamless pipe manufacturers to announce sales price increases. Distributor inventories are estimated to have fallen from 10 months to less than 2 months [5], taking into account Preston's restatement of slow moving inventories end of 2016.

This market environment translated into better activity for Vallourec in H1 2017.

In the Gulf of Mexico, the number of drilling platforms stood at 21 units at the end of June 2017 [6], down 1 unit compared with the end of 2016 and 3 units compared to the end of June 2016.

**In the rest of the world**, the international active rig count [7] stood at 957 units at the end of May 2017, compared with 929 units at the end of 2016.

**In the EAMEA region** [8], Middle East remains quite active with more tenders than at the beginning of the year. In Africa, we see a slight sign of upcoming tendering activity restart. Pressure on prices remains, even if a small increase has been passed on some tenders.

**In Brazil**, operations are driven by Petrobras' five-year, 2017-2021 Business and Management Plan. Petrobras recently slightly updated CAPEX plan 2017-2021 to USD 74.5 billion (compared with USD 74.1 billion initially in September 2016). For the sole year of 2017, their CAPEX guidance has been reduced from USD 19 billion to USD 17 billion, with no impact on production target for the year.

Petrobras' plan continues to prioritize oil exploration and production (E&P) projects: the 2017-2021 E&P budget amounts to USD 61.3 billion, representing 82% of total CAPEX, with continuous focus on the exploration of pre-salt fields, drilling in very deep waters (over 2,000 meters), far offshore and in highly corrosive environments.

For line pipe projects, Vallourec is also working with Libra's team on R&D solutions for rigid risers [9], as an alternative to flexible risers.

In H1 2017, the activity level in the **Petrochemicals** market gained momentum, especially in the USA and Asia, both thanks to distributors' stocks replenishments and sanctions of new projects.

*(1) Scope effect calculated with regard to restated H1 2016 revenue.*

*(2) Thomson Reuters – data collected in July 2017.*

*(3) Baker Hughes (number of active rigs in the United States) – July 2017.*

*(4) Price of gas (Henry Hub). Thomson Reuters – Q1 2017 average, data collected in April 2017.*

*(5) Preston Pipe report – June 2017*

*(6) Baker Hughes (number of active rigs in the United States of America) – July 2017.*

*(7) Baker Hughes (number of active international rigs = excluding North America) – July 2017.*

*(8) EAMEA: Europe, Africa, Middle East, Asia.*

*(9) Line which brings hydrocarbons from the wellhead to the surface and the floating processing units.*

## 2. Power Generation

### CONVENTIONAL ENERGY

All over the world, regulations are promoting the installation of more and more renewable capacity. Yearly renewable power capacity additions will overpass all thermal capacity additions around 2022.

From a technological standpoint, environmental concerns will favor more efficiency, safety and cleanliness, confirming and reinforcing the trend towards more complex designs such as USC, CC and Gen3.

These long term trends reflected on demand in H1 with an improving product mix but at the same time decreasing volumes. China was still active and should remain so in the next months, India as well, but South Korea coal power stations programs are already impacted by the decisions taken by the new President. In the other regions (Europe, North America) activity remains limited to maintenance works.

### NUCLEAR ENERGY

Around 130 nuclear power projects will be commissioned between 2016 and 2025.

However, the difficulties of funding, the issues related to increasing safety of facilities, as well as the political reluctance of some states such as South Korea recently postpone the rebound of nuclear power.

In Europe, the United Kingdom has launched a nuclear program targeting an additional capacity of the nuclear fleet in operation of 16 GW by 2030 and has signed a cooperation agreement with EDF on the Hinkley Point C project (to be commissioned in 2025 at the earliest).

In line with the commitments made in September 2014 in terms of $CO_2$ emissions reduction, China has confirmed its target to reach an installed nuclear capacity of 58 GW in 2020, then up to 150 GW by 2030, compared with 32 GW in 2017 (1). In the 13th Five-Year Plan from 2016, six to eight nuclear reactors are to be approved each year.

Lastly, new nuclear power plant projects are under construction or planned in Asia (India and Southeast Asia) and the Middle East (Turkey, Saudi Arabia, United Arab Emirates).

In addition to the new build business, Vallourec is also targeting tubular needs related to the program to extend the life time of existing reactors (France, Canada, South Korea…).

### RENEWABLES

Activity is increasing, mostly for offshore windmills and biomass power plants. Vallourec is also involved in different innovation projects in offshore windmills, solar or hydrogen energy.

## 3. Other applications

In H1 2017, Mechanical Engineering activity was up compared to H1 2016 while the Automotive and Construction market segments remained relatively stable. This improved level of activity in non-energy markets along with increasing pre-material costs enabled tube manufacturers to implement some price increases in Q2 2017.

In Brazil, economy increased 1% in the first quarter of 2017 compared to the fourth quarter of 2016, taking Brazil out of recession after two years, although political situation remains uncertain and unstable. Market forecasts 0.4% GDP growth for 2017 full-year compared with 2016.

## 4. Raw materials

The American steel plant within the Group is equipped with an electric arc furnace fed with scrap metal. The Brazilian steel plants are combining both electric furnace (using scrap metal in Jeceaba) and two blast furnaces (one in Barreiro and one in Jeceaba, both using iron ore).

In the United States, scrap metal prices (2) over Q2 2017 were on average 305USD/LT, a 2% decrease compared to the Q1 2017 average prices (310USD/LT). Over 2016, scrap metal prices (2) were on average at 229USD/LT compared to 308USD/LT over H1 2017 (+34%).

In Brazil, scrap metal prices (3) over Q2 2017 were on average 223USD/T, a 1% decrease compared to Q1 2017 average prices (226USD/T). Over Q4 2016, scrap metal prices (3) were on average at 198USD/T compared to 225USD/T over H1 2017 (+14%).

Iron ore is provided internally from Vallourec's mine. For information, international market iron ore prices (4) average was 62.9USD/T over Q2 2017, a 26% decrease compared to Q1 2017 (85.5USD/T). As a reminder, average international market iron ore prices (4) in 2016 were on average at 57USD/MT compared to 74USD/MT over H1 2017 (+30%).

## 5. Currencies

The Group's results of operations and financial conditions are sensitive to volatility in foreign currencies (primarily the Brazilian real and the US dollar) against the euro. The impact is produced in two ways, through the "translation effect" and the "transaction effect."

The translation effect is defined as the impact of the changing value of the financial statements of subsidiaries whose functional currency is not the euro on the Group's consolidated financial statements. The effect is positive when the currency rises against the euro and negative when it falls against the euro. Assets and liabilities of foreign subsidiaries, including goodwill, are translated at the official exchange rates on the reporting date. The income statements of foreign subsidiaries are translated at the average exchange rate for the period. The Group presents its revenue at "constant exchange rates" by neutralizing the impact of the translation effect on revenue, applying the prior year's average exchange rates to the current year's revenue. The translation effect can also impact shareholders' equity directly, due to the effect of changes in foreign currency exchange rates on the euro-equivalent values of balance sheet items of consolidated subsidiaries whose functional currency is not the euro.

In the first half of 2017, the appreciation of the Brazilian real against the euro had a positive translation effect while the depreciation of the US dollar against the euro had no translation effect on the Group's results.

*(1) http://www.world-nuclear.org/information-library/facts-and-figures/world-nuclear-power-reactors-and-uranium-requirements.aspx*

*(2) CRU Shredded Pittsburgh – USA.*

*(3) (Brazil – scrap)-internal index.*

*(4) Platts SBB – IODEX Iron ore fines 62% CFR North China $/T.*

The transaction effect is defined as the impact of exchange rates on transactions effected by a Group company in a currency other than its functional currency (for example, where a European or Brazilian company in the Group sells goods or services in US dollars). It is positive when the functional currency declines and negative when it rises, with a delay resulting from hedges in place. Revenue presented at constant exchange rates is not adjusted for the transaction effect. In the first half of 2017, compared with the first half of 2016, the Group recorded a negative transaction effect due to the appreciation of the Brazilian real against the US dollar.

## Significant Events in the First Half of 2017

On 18 January 2017, Vallourec announced its new organization structured around four regions: North America, South America, Europe/Africa (EA), and the Middle East/Asia (MEA) and two Central Departments (Development & Innovation and Technology & Industry) which is now in place.

On 26 January 2017, Vallourec finalized the divestiture of a majority shareholding to Asco Industries in the Saint Saulve steel mill. Ascoval S.A.S., 60% owned by Asco Industries and 40% by Vallourec, owns all the assets of the steel mill. The Saint-Saulve steel mill will supply both shareholders; Asco Industries to supply the rolling facilities of its mills, and Vallourec for its special steel requirements.

On 12 May 2017, Vallourec's Shareholders' Meeting approved the appointment of Mr Yuki Iriyama as member of the Supervisory Board for a period of four years ending after the Ordinary General Meeting of Shareholders called to approve the accounts of the financial year ending 31 December 2020. The Shareholders' Meeting also adopted the proposed bylaws amendment in relation to the composition of the Supervisory Board and enabling the Group Works Council to appoint an employee representative on the Supervisory Board. The latter will be appointed within six months of the Shareholders' Meeting held on 12 May 2017.

On 21 June 2017, Vallourec inaugurated a new cutting-edge tube-piercing equipment in Germany. This cutting-edge equipment is considered among the most modern in the world and guarantees increased productivity and reduced energy consumption. With this new tool, Vallourec demonstrates its determination to maintain its highest level of technological expertise and reinforces its position as a global leader.

## Transformation Plan

Vallourec continues to deploy its Transformation Plan including its new rationalized industrial footprint combined with the rigorous implementation of the structural cost reductions program.

In H1 2017, the Transformation Plan enabled to generate €78 million gross savings.

## Transactions with related parties

Transactions carried out with equity affiliates during the first half of 2017 relate mainly to purchases of steel rods from HKM amounting to €146 million and €48 million with Ascoval.

## Main risks and uncertainties for the second half of 2017

Vallourec does not expect any change to its risks, as set out in Chapter 5, Section 5.1 "Risk factors" of the 2016 Registration Document (*Document de référence*) filed with the *Autorité des Marchés Financiers* (the French securities regulator), on 21 March 2017 under number D.17-0191, which would be likely to have an impact on the rest of the 2017 fiscal year. Furthermore, Vallourec has not identified any new risks that would not be already mentioned in this section. A description of market and liquidity risks is provided in Notes 8 and 16 of the notes to the consolidated financial statements and in Notes 8 and 16 of the half-year financial statements.

## Consolidated Group results

### Income Statement

| *In € million* | H1 2016 | H1 2017 | Change YoY |
|---|---|---|---|
| **Revenue** | **1,434** | **1,716** | **+19.7%** |
| Cost of sales [a] | (1,312) | (1,503) | +14.6% |
| **Industrial margin** | **122** | **213** | **+74.6%** |
| *(as % of revenue)* | *8.5%* | *12.4%* | *+3.9 pts* |
| SG&A costs [a] | (225) | (221) | -1.8% |
| Other income (expense), net | (1) | (10) | N/A |
| **EBITDA** | **(104)** | **(18)** | **+€86m** |
| *(as % of revenue)* | *-7.3%* | *-1.0%* | *+6.3pts* |
| Depreciation of industrial assets | (141) | (151) | +7.1% |
| Amortization and other depreciations | (22) | (23) | N/A |
| Impairment of assets | (68) | - | N/A |
| Asset disposals, restructuring and other | (83) | 3 | N/A |
| **Operating income (loss)** | **(418)** | **(189)** | **+€229m** |
| Net financial income (loss) | (68) | (101) | +48.5% |
| **Pre-tax income (loss)** | **(486)** | **(290)** | **+€196m** |
| Income tax | 46 | 18 | N/A |
| Share in net income (loss) of associates | (2) | (3) | N/A |
| **Consolidated net income (loss)** | **(442)** | **(275)** | **+€167m** |
| Non-controlling interests | 27 | 21 | N/A |
| **NET INCOME (LOSS), GROUP SHARE** | **(415)** | **(254)** | **+€161m** |

*(a) Before depreciation and amortization.*

### Sales Volume

The diversity of the Group's products and the absence of appropriate units of measurement, other than financial units, prevent the provision of meaningful information on sales volume. However, the following table provides a summary of quarterly output, which corresponds to the volumes produced and shipped from Vallourec rolling mills, expressed in metric tons of hot-rolled seamless tubes:

| *In thousands of metric tons* | 2016 | 2017 | Change 2016/2017 |
|---|---|---|---|
| Q1 | 251 | 475 | +89.2% |
| Q2 | 321 | 538 | +67.6% |

In the first half of 2017, volumes increased 77.1% compared with the first half of 2016 mainly as a result of the rebound in the US, along with scope impacts (Tianda and VSB consolidation). Excluding scope impacts, volumes would have increased by 17.2%.

### Revenue

#### CONSOLIDATED REVENUE

**Over the first half of 2017, Vallourec recorded revenue of €1,716 million, up 19.7% compared with the first half of 2016**. At constant scope and exchange rates revenue was up 2.4%, with a positive volume impact (+26.2%), mainly due to the volume rebound in the US partly offset by a negative price/mix effect (-23.8%) explained by three factors:

- a change in mix in H1 2017 deliveries compared to a favourable H1 2016;
- the price deterioration in the Oil & Gas market in 2016 weighing on 2017 revenue; and
- a change in geographical mix with higher US volumes sold at a lower average selling price than the Group average.

The scope effect (integration of Tianda, full consolidation of VSB and divestiture of VHET) was +11.7% [1] and the exchange rate effect was +5.6%.

*(1) Scope effect calculated with regard to restated H1 2016 revenue.*

### Revenue by Geography

| *In € million* | H1 2016 | % of revenue | H1 2017 | % of revenue | Change H1 2016/2017 at current exchange rates | Change H1 2016/2017 at constant exchange rates |
|---|---|---|---|---|---|---|
| France | 47 | 3% | 53 | 3% | +12.8% | +12.8% |
| Germany | 137 | 9% | 119 | 7% | -13.1% | -13.1% |
| Other EU Countries [(a)] | 123 | 9% | 108 | 6% | -12.2% | -9.8% |
| **Total Europe** | **307** | **21%** | **280** | **16%** | **-8.8%** | **-7.8%** |
| **North America** | **238** | **17%** | **414** | **24%** | **+73.9%** | **+69.3%** |
| Brazil | 210 | 15% | 308 | 18% | +46.7% | +21.9% |
| Other Central & South America | 7 | 0% | 7 | 0% | N/A | N/A |
| **Total South America** | **217** | **15%** | **315** | **18%** | **+45.2%** | **+21.2%** |
| China | 109 | 7% | 183 | 11% | +67.9% | +68.8% |
| Other Asia and Middle East | 295 | 21% | 375 | 22% | +27.1% | +19.0% |
| **Total Asia and Middle East** | **404** | **28%** | **558** | **33%** | **+38.1%** | **+32.4%** |
| CIS | 17 | 1% | 12 | 1% | -29.4% | -29.4% |
| Rest of the world | 251 | 18% | 137 | 8% | -45.4% | -45.0% |
| **Total Rest of the world** | **268** | **19%** | **149** | **9%** | **-44.4%** | **-44.0%** |
| **TOTAL REVENUE** | **1,434** | **100%** | **1,716** | **100%** | **+19.7%** | **+14.1%** |

*(a) Other European Union countries, excluding Germany and France.*

### Revenue by market

| *In € million* | H1 2016 | As % of revenue | H1 2017 | As % of revenue | Change YoY | Change YoY at constant exchange rate [(a)] |
|---|---|---|---|---|---|---|
| Oil & Gas | 863 | 60.2% | 1,069 | 62.3% | +23.9% | +17.3% |
| Petrochemicals | 68 | 4.7% | 109 | 6.4% | +60.3% | +54.4% |
| **Oil & Gas, Petrochemicals** | **931** | **64.9%** | **1,178** | **68.7%** | **+26.5%** | **+20.0%** |
| **Power Generation** | **227** | **15.8%** | **189** | **11.0%** | **-16.7%** | **-17.2%** |
| Mechanicals | 133 | 9.3% | 155 | 9.0% | +16.5% | +13.5% |
| Automotive | 49 | 3.4% | 70 | 4.1% | +42.9% | +28.6% |
| Construction & Other | 94 | 6.6% | 124 | 7.2% | +31.9% | +22.3% |
| **Industry & Other [(b)]** | **276** | **19.3%** | **349** | **20.3%** | **+26.4%** | **+19.2%** |
| **TOTAL** | **1,434** | **100.0%** | **1,716** | **100.0%** | **+19.7%** | **+14.1%** |

*(a) The change at constant exchange rates is defined as the change in revenue between two periods obtained by translating the revenue of consolidated subsidiaries whose functional currency is not the euro into euros at the average cumulative rate of the prior fiscal year. It does not include foreign currency impacts on sales entered into by certain subsidiaries in currencies other than their functional currency. Rather, that impact is built into price/mix effects.*

*(b) Including sales of iron ore.*

OIL & GAS, PETROCHEMICALS (68.7% OF CONSOLIDATED REVENUE)

**Oil & Gas** revenue reached €1,069 million in H1 2017, up 23.9% year on year. Excluding scope and forex effects, Oil & Gas revenue was up 2.4% year-on-year.

- **In the USA**, revenue more than doubled thanks to higher volumes. Sequentially Q2 sales were higher than Q1, with higher volumes, and to a lesser extent, higher prices. Vallourec domestic facilities have progressively increased their activity over the half-year, and are now close to full capacity utilization. The support of imported volumes from our other mills, notably from Brazil, has been started.
- **In the EAMEA region**, OCTG volumes were up year-on-year as a result of the integration of Tianda deliveries and full consolidation of VSB exports. However, revenue was down mainly due to deliveries to NOCs at lower prices in the backlog than in H1 2016.
- **In Brazil**, Oil & gas revenue was up year-on-year, notably benefiting from higher OCTG deliveries required by Petrobras in Q1 for drilling of exploratory wells in the Libra field.

**Petrochemicals** revenue was €109 million in H1 2017, up 60.3% year-on-year mainly thanks to positive scope impacts. Excluding scope and forex effects, Petrochemicals revenue was up 16.2% year-on-year.

POWER GENERATION (11.0% OF CONSOLIDATED REVENUE)

**Power Generation** revenue amounted to €189 million in H1 2017, down 16.7% year-on-year, including the impact related to the integration of Tianda. This decline results from lower deliveries in Asia notably in the second quarter, for both conventional and nuclear, as well as from the divestiture of VHET in 2016. Excluding scope and forex effects, Power Generation revenue was down 16.3% year-on-year.

INDUSTRY & OTHER (20.3% OF CONSOLIDATED REVENUE)

**Industry & Other** revenue amounted to €349 million in H1 2017, up 26.4% year-on-year.

- **In Europe**, it was up essentially thanks to higher volumes for Mechanical Engineering.
- **In Brazil**, Industry and Other revenue was up mainly thanks to the increase of iron ore prices combined with increased volumes and prices for heavy vehicles and agricultural machinery.

Excluding scope and forex effects, Industry and other revenue was up 13.8% year-on-year.

### Revenue by quarter

| *In € million* | **1st quarter** | **2nd quarter** |
|---|---|---|
| 2016 | 671 | 763 |
| 2017 | 783 | 933 |
| % change compared with the previous year | +16.7% | +22.3% |
| *Volume effect* | *+36.3%* | *+18.3%* |
| *Forex translation effect* | *+8.5%* | *+3.1%* |
| *Scope effect* | *+9.7%* | *+13.5%* |
| *Other effects (price, mix, etc.)* | *-37.8%* | *-12.6%* |

Second quarter 2017 revenue was up compared to first quarter 2017 revenue mainly thanks to a positive volume impact and improved average prices notably in the US, and seasonal impact as the first quarter is traditionally a low quarter.

## EBITDA

**For the first half of the year, EBITDA stood at -€18 million, an improvement of €86 million year-on-year, with:**

- consolidated revenue up 19.7% compared with H1 2016;
- an industrial margin of €213 million, up €91 million compared with H1 2016;
- sales, general and administrative costs (SG&A) of €221 million, down 1.8% compared with H1 2016.

Q2 2017 EBITDA was better than initially anticipated, mainly due to better performance in Brazil and the US, associated with favourable change in provision.

The following table shows the changes in the principal components of EBITDA in H1 2016 and H1 2017.

| *In € million* | H1 2016 | H1 2017 | Change YoY |
|---|---|---|---|
| **Revenue** | **1,434** | **1,716** | **+19.7%** |
| Cost of sales [(a)] | (1,312) | (1,503) | +14.6% |
| **Industrial margin** | **122** | **213** | **+74.6%** |
| *(as % of revenue)* | *8.5%* | *12.4%* | *+3.9 pts* |
| SG&A costs [(a)] | (225) | (221) | -1.8% |
| Other income (expense), net | (1) | (10) | N/A |
| **EBITDA** | **(104)** | **(18)** | **+€86M** |

*(a) Before depreciation and amortization.*

## Industrial margin

Industrial margin is defined as the difference between revenue and cost of sales (excluding depreciation).

Industrial margin was €213 million, up €91 million compared with H1 2016, reflecting (i) the impact of higher sales in particular in the US and in Brazil more than offsetting the lower contribution from EAMEA, as well as (ii) the savings and scope impact from the Transformation Plan initiatives, mitigated by the increase in raw material costs.

The following table shows the breakdown of cost of sales (excluding depreciation) in H1 2016 and H1 2017.

| *In € thousand* | H1 2016 | H1 2017 | Change H1 2016/H1 2017 |
|---|---|---|---|
| Direct cost of sales | (75,643) | (98,525) | +30.2% |
| Cost of raw materials consumed | (472,451) | (597,754) | +26.5% |
| Labor costs | (381,625) | (423,413) | +11.0% |
| Other manufacturing costs [(a)] | (408,479) | (468,770) | +14.8% |
| Change in non-raw material inventories | 26,017 | 86,147 | N/A |
| **TOTAL** | **(1,312,181)** | **(1,502,315)** | **+14.5%** |
| Depreciation and amortization | (140,104) | (150,614) | +7.5% |
| **TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)** | **(1,452,285)** | **(1,652,929)** | **+13.8%** |

*(a) "Other manufacturing costs" consist mainly of energy and consumable materials costs, subcontracting and maintenance costs and provisions.*

## Selling, general and administrative costs

Sales, general and administrative costs (SG&A) were €221 million, down 1.8% compared with H1 2016 with cost savings being partly offset by negative forex and scope impacts.

The following table shows the breakdown of SG&A expenses (excluding depreciation) in H1 2016 and in H1 2017.

| *In € million* | H1 2016 | H1 2017 | Change H1 2016/H1 2017 |
|---|---|---|---|
| Research and Development costs | (29) | (26) | -10.3% |
| Sales and marketing costs | (44) | (41) | -6.8% |
| General and administrative costs | (152) | (154) | +1.3% |
| **TOTAL** | **(225)** | **(221)** | **-1.8%** |

## Personnel expenses

Personnel expenses amounted to €543 million.

The following table shows the breakdown of personnel costs.

| *In € thousand* | H1 2016 | H1 2017 | Change H1 2016/H1 2017 |
|---|---|---|---|
| **PERSONNEL EXPENSES** | | | |
| Wages and salaries | (380,986) | (421,786) | +10.7% |
| Employee profit-sharing | (9,207) | (12,579) | +36.6% |
| Expenses related to share subscription and share purchase options and performance shares | (652) | (1,632) | N/A |
| Social security costs | (115,623) | (106,617) | -7.8% |
| **TOTAL** | **(506,468)** | **(542,614)** | **+7.1%** |

Headcount changed as follows.

31/12/2016 and H1 2017 numbers include 100% of VSB and Tianda as of 31/12/2016.

| Closing headcount of consolidated companies | 31/12/2016 | H1 2016 (a) | H1 2017 | Change H1 2016/H1 2017 |
|---|---|---|---|---|
| Managers | 3,299 | 3,192 | 3,177 | -0.5% |
| Technical and supervisory staff | 3,107 | 3,099 | 3,076 | -0.7% |
| Production staff | 12,836 | 11,395 | 12,756 | N/A |
| **TOTAL** | **19,242** | **17,686** | **19,009** | **+7.5%** |

*(a) The headcount of companies recorded as joint ventures are included up to the percentage interest held.*

## Operating profit/(loss)

**Operating result was a loss of €189 million**, compared to a loss of €418 million in H1 2016, or a €229 million improvement, resulting from higher EBITDA and no restructuring and impairment charges in H1 2017. In H1 2016 operating result was impacted by restructuring charges of €83 million and impairment charges of €68 million mainly related to the strategic initiatives announced on 1 February 2016.

### DEPRECIATION OF INDUSTRIAL ASSETS

Depreciation of industrial assets amounted to -€151 million, compared to -€141 million in H1 2016.

### AMORTIZATION, RESTRUCTURING AND OTHER

Depreciation of non-industrial assets was -€23 million in H1 2017, compared with -€22 million in H1 2016.

In H1 2016, adaptation measures (net of expenses and provisions) totaled -€87 million, essentially relating to the labor costs resulting from measures to rationalize the European and Brazilian tube production units announced in February 2016.

Results of divestiture and scrapping of property, plant and equipment totaled a profit of €4 million in H1 2016.

### IMPAIRMENT

Impairment charges were booked for a total amount of -€68 million in H1 2016 mainly resulting from the major strategic initiatives announced on 1 February 2016 including in particular -€46 million relating to European tube production units and -€18 million relating to Brazilian and North American mills.

The following table shows the breakdown of asset impairment.

| *In € thousand* | H1 2016 | H1 2017 |
|---|---|---|
| Impairment of intangible assets | - | - |
| Impairment of property, plant and equipment | (54,309) | (244) |
| Impairment of biological assets | (3,672) | - |
| Impairment of goodwill | - | - |
| Other impairment of assets | (10,267) | - |
| **TOTAL** | **(68,248)** | **(244)** |

### Financial income/(loss)

**Financial result was negative at -€101 million** versus -€68 million in H1 2016, mainly impacted by the recognition of a loss of -€13 million related to the change in fair value of NSSMC shares held by Vallourec since 2009, higher financial interests and the full consolidation of VSB.

The following table shows the breakdown of financial income/(loss).

| *In € thousand* | H1 2016 | H1 2017 | Change H1 2016/H1 2017 | Change H1 2016/H1 2017 *(in %)* |
|---|---|---|---|---|
| Financial income | 12,477 | 16,509 | 4,032 | +32.3% |
| Interest expenses | (50,459) | (79,617) | (29,158) | +57.8% |
| **Net financial cost** | **(37,982)** | **(63,108)** | **(25,126)** | **+66.2%** |
| **Other financial income and expenses** | **(25,483)** | **(30,910)** | **(5,427)** | **+21.3%** |
| **Other discounting expenses** | **(4,933)** | **(6,786)** | **(1,853)** | **+37.6%** |
| **FINANCIAL INCOME (LOSS)** | **(68,398)** | **(100,804)** | **(32,406)** | **+48.5%** |

### Income tax expense

**Income tax was a gain of €18 million in H1 2017**, compared to a gain of €46 million in H1 2016, essentially related to the recognition of deferred tax assets.

### Net income/(loss)

**The share attributable to non-controlling interests amounted to €21 million in H1 2017**, compared to €27 million in H1 2016.

**Net loss, Group share was -€254 million in H1 2017**, compared to -€415 million in H1 2016.

## Liquidity and Capital Resources

### Overview

**Vallourec generated a negative free cash flow of -€325 million in H1 2017** compared to -€317 million in H1 2016. This is mainly explained by:

- negative cash flow from operating activities at -€160 million, versus -€203 million in H1 2016. Better EBITDA was partly offset by higher financial interests paid over the period and unfavourable change in non-cash provision;
- change in working capital requirement amounted to -€104 million compared to -€41 million in H1 2016. This increase, which took place in Q1 2017 before stabilization in Q2, is principally explained by the activity recovery in the US. It was partly offset by operational working capital management efficiencies over the period;
- capital expenditure at -€61 million, compared to -€73 million in H1 2016.

**As a consequence, as at 30 June 2017, Group net debt increased by €326 million compared to 31 December 2016 to reach €1,613 million**. Cash consumption was efficiently managed over the second quarter (net debt increased by €80 million over Q2 2017).

The Company's cash position as at 30 June 2017 amounted to €867 million.

Vallourec's medium and long-term committed facilities amounted to €2.3 billion (including €0.2 billion credit facilities maturing in July 2017), out of which €0.7 billion were drawn.

At 30 June 2017, short-term debt amounted to €1,419 million, including €0.7 billion of drawn committed long term credit facilities.

As a reminder, through amendments signed on 17 March 2017, the net debt-to-equity covenant associated to the Group's medium and long-term bank facilities has been revised with a threshold raised from 75% to 100% for the annual tests occurring at the end of 2018, 2019 and 2020.

## Cash Flow

### Simplified Statement of Cash Flows

| *In € thousand* | H1 2016 | H1 2017 |
|---|---|---|
| Cash flow from operating activities | (202,925) | (159,890) |
| Change in operating working capital requirements | (41,373) | (104,341) |
| **Net cash flow from operating activities (1)** | **(244,298)** | **(264,231)** |
| **Net cash flow from (used in) investing activities (2)** | **(67,176)** | **(84,976)** |
| **Cash flow from financing activities (3)** | **1,062,191** | **(55,241)** |
| Impact of changes in exchange rates (4) | 40,324 | (15,131) |
| **CHANGE IN CASH (1 + 2 + 3 + 4)** | **791,041** | **(419,579)** |

#### NET CASH FLOW FROM OPERATING ACTIVITIES

Net cash flow from operating activities was -€264 million for the six months ended 30 June 2017, as compared with -€244 million for the six months ended 30 June 2016, mainly resulting from higher consolidated net income, despite higher working capital requirement.

The change in working capital requirement is broken as follows:

| **Gross values** *(In € thousand)* | 31/12/2016 | Translation difference | Change | Reclassifications and other | 30/06/2017 |
|---|---|---|---|---|---|
| Inventories | 1,240,512 | (65,704) | 209,033 | (5,520) | 1,378,321 |
| Trade receivables | 579,168 | (30,449) | 79,514 | (887) | 627,346 |
| Trade payables | (530,391) | 27,776 | (93,135) | 5,377 | (590,373) |
| Other receivables and payables | 82,677 | (6,352) | (108,093) | (5,739) | (37,507) |
| **Gross working capital (1)** | **1,371,967** | **(74,729)** | **87,319** | **(6,769)** | **1,377,788** |
| **Impact of hedging instruments (2)** | | | **17,022** | | |
| **TOTAL (1) + (2)** | | | **104,341** | | |
| **Change in working capital in the statement of cash flows** | | | **(104,341)** | | |

#### NET CASH FLOW FROM INVESTMENT ACTIVITIES

Net cash flow used in investment activities was -€85 million for H1 2017, as compared with -€67 million for H1 2016. This increase is due principally to the impact of the disposal of a majority stake in the Saint Saulve steel plant.

#### NET CASH FLOW FROM FINANCING ACTIVITIES

Net cash flow from financing activities was -€55 million for H1 2017, as compared with +€1,062 million in H1 2016.

Net cash outflows in H1 2017 consisted primarily of the reimbursement of the €650 million bond which matured in February 2017, more than offset by the proceeds drawn from new borrowings.

Net cash outflows in H1 2016 consisted primarily of the deposit in an escrow account in Q1 2016 of -€57 million in relation to the acquisition of Tianda Oil Pipe. In H1 2016, the Group had a cash outflow of -€651 million in loan repayments and a cash inflow of €813 million relating to new loans. On 3 May 2016, Vallourec successfully completed its €959 million capital increase.

## Capital Expenditures

### MAIN INVESTMENTS DURING THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017

In recent years, industrial capital expenditure programs have been directed mainly toward streamlining production facilities, improving quality and process control, adapting product lines to reflect customers' changing requirements, expanding premium product finishing capacity and reducing production costs.

The following table shows the investments made during the six months ended 30 June 2017.

### INDUSTRIAL CAPITAL EXPENDITURE EXCLUDING CHANGES IN SCOPE (PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND BIOLOGICAL ASSETS)

| | 31/12/2016 | | 30/06/2017 | |
|---|---|---|---|---|
| *In € thousand* | Intangible assets and property, plant and equipment | Biological | Intangible assets and property, plant and equipment | Biological |
| Europe | 95,600 | | 27,521 | |
| North America | 18,001 | | 3,548 | |
| South America | 47,151 | 6,584 | 14,207 | 2,334 |
| Asia | 9,020 | | 2,951 | |
| Other | 120 | | 5 | |
| **TOTAL** | **169,892** | **6,584** | **48,232** | **2,334** |
| Capital expenditure payments during the year [(a)] | 175,386 | | 61,025 | |

*(a) The difference between capital expenditure payments and the total of industrial capital expenditure corresponds to the variation of amounts payable on fixed assets.*

The most significant investment programs implemented during the first half of 2017 are outlined below:

- continuing implementation of the new Cleanwell process in Europe for OCTG products;
- completing installation of a new high-performance piercer in Düsseldorf-Rath tube plant; and
- improving the safety of people and maintaining the facilities.

## Free cash flow

For H1 2017, free cash flow was negative at -€325 million, as compared with negative free cash flow of -€317 million in H1 2016. Free cash flow is defined as net cash flow from operating activities minus gross capital expenditures. The following table shows the calculation of free cash flow in H1 2016 and H1 2017.

| *In € million* | H1 2016 | H1 2017 | Change |
|---|---|---|---|
| Cash flow from operating activities (FFO) (A) | (203) | (160) | +43 |
| Change in operating WCR (B) [+ decrease, (increase)] | (41) | (104) | -63 |
| Gross capital expenditure (C) | (73) | (61) | +12 |
| **FREE CASH FLOW (A) + (B) + (C)** | **(317)** | **(325)** | **-8** |

## Liquidity and Indebtedness

The Company's cash position as at 30 June 2017 amounted to €867 million.

Vallourec's medium and long-term committed facilities amounted to €2.3 billion (including €0.2 billion credit facilities maturing in July 2017), out of which €0.7 billion were drawn.

At 30 June 2017, short-term debt amounted to €1,419 million, including €0.7 billion of drawn committed long term credit facilities.

Through amendments signed on 17 March 2017, the net debt-to-equity covenant associated to the Group's medium and long-term bank facilities has been revised with a threshold raised from 75% to 100% for the annual tests occurring at the end of 2018, 2019 and 2020.

The Group's financial resources include bank financing and market financing.

Most of the Group's long-term and medium-term bank financing was set up in Europe at the level of Vallourec and its sub-holding company Vallourec Tubes and, to a lesser extent, at the level of its subsidiaries in Brazil and the United States. The market financing is exclusively entered into by Vallourec.

The following table shows the Group's principal financial indebtedness as at 30 June 2017.

| *In € million* | As at 30 June 2017 |
|---|---|
| Private placement – maturing in August 2019 | 399 |
| Private placement – maturing in August 2027 | 54 |
| Bond issue maturing in September 2024 | 498 |
| Commercial paper | 434 |
| RCF drawings | 592 |
| Bilateral credit lines – US | 70 |
| VSB BNDES loan | 8 |
| Jeceaba Finance Lease – Brazil | 81 |
| Vallourec Star finance lease | 28 |
| Other | 315 |
| **TOTAL GROSS FINANCIAL INDEBTEDNESS** | **2,479** |

The Group's principal bank arrangements (including its €1.1 billion revolving credit line maturing in February 2021, its €400 million revolving credit line maturing in July 2020, its €450 million revolving credit line maturing in February 2020 and its €90 million bilateral credit line maturing in February 2021) provide that Vallourec must maintain a ratio of consolidated net financial debt to consolidated equity that is less than or equal to 75% to be calculated for 31 December 2017 and then, less than or equal to 100% for 31 December 2018, 2019 and 2020. The Group's consolidated debt to equity ratio was 35% as at 31 December 2016, as calculated under the Group's bank loan covenants. As defined in the bank loan agreements, the "banking covenant" ratio is the ratio of the Group's consolidated net debt to the Group's equity, restated for gains and losses on derivatives and for re-measurements (foreign currency gains and losses of consolidated subsidiaries).

A change in control of Vallourec could trigger acceleration of all or some of the credit lines, as decided by each participating bank.

It is also provided that the credit lines will become immediately due and payable if the Group defaults on one of its financial debts ("cross default"), or if a significant event occurs that will have an impact on the Group's activity or financial condition and its ability to repay its debt.

### Equity

The Group's equity, Group share, totaled €2,817 million as at 30 June 2017, a decrease of €467 million compared with €3,284 million as at 31 December 2016. This decrease is mainly explained by:

- the Group's negative net result recorded in H1 2017 for an amount of -€254 million;
- a change in foreign currency translation reserve of -€259 million.

## Outlook

### 2017 Outlook

Over the second half of the year, revenue and results in North America are expected to improve compared with H1, thanks to higher deliveries allowed by the return of domestic facilities to full capacity utilization, and to the price increases taking place as of Q3.

On the other hand, result in Brazil will be impacted notably by lower deliveries for off-shore after the high level achieved in the first semester, and by the decrease in iron ore prices.

In Oil & Gas EAMEA, signs for an upcoming higher tendering activity from IOCs will not impact the second semester.

Vallourec does not expect any significant changes in its other businesses, where the environment will stay very competitive.

Transformation Plan initiatives are expected to generate significant savings over the year, in line with its objectives.

Although it operates in a volatile and uncertain environment, assuming that current market conditions remain stable, Vallourec upgrades its full year 2017 EBITDA target to an improvement ranging from +€125 million to +€175 million when compared to 2016 [1].

*(1) On 26 April 2017, Vallourec targeted an EBITDA improvement ranging between €50 million and €100 million when compared to 2016, in the upper part of this range. As a reminder, 2016 EBITDA stood at -€219 million.*

# Consolidated interim financial statements

CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE VALLOUREC GROUP AT 30 JUNE 2017

## Vallourec Group's statement of financial position

### Asset

| *In € thousand* | Notes | 31/12/2016 | 30/06/2017 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Net intangible assets | 1 | 124,982 | 104,522 |
| Goodwill | 1 | 382,684 | 359,083 |
| Gross property, plant and equipment | 2.1 | 6,351,197 | 6,037,832 |
| Less: accumulated amortization, depreciation and provisions | 2.1 | (2,733,583) | (2,761,093) |
| Net property, plant and equipment | 2.1 | 3,617,614 | 3,276,739 |
| Biological assets | 2.2 | 88,411 | 79,470 |
| Associates | 3 | 124,800 | 123,010 |
| Other non-current assets | 4 | 348,571 | 296,148 |
| Deferred tax assets | 5 | 190,269 | 198,379 |
| **TOTAL** | | **4,877,331** | **4,437,351** |
| **CURRENT ASSETS** | | | |
| Inventories and work in progress | 6 | 1,034,749 | 1,161,510 |
| Trade and other receivables | 7 | 546,218 | 593,092 |
| Derivatives – assets | 8 | 57,985 | 38,777 |
| Other current assets | 9 | 283,019 | 247,393 |
| Cash and cash equivalents | 10 | 1,286,722 | 866,546 |
| **TOTAL** | | **3,208,693** | **2,907,318** |
| **TOTAL ASSETS OF CONTINUING OPERATIONS** | | **8,086,024** | **7,344,669** |
| Total assets held for sale | 11 | 46,327 | - |
| **TOTAL ASSETS** | | **8,132,351** | **7,344,669** |

## Liabilities

| *In € thousand* | Notes | 31/12/2016 | 30/06/2017 |
|---|---|---|---|
| **EQUITY** | 13 | | |
| Capital | | 902,476 | 902,476 |
| Additional paid-in capital | | 1,404,786 | 1,404,786 |
| Consolidated reserves | | 1,993,343 | 1,227,024 |
| Reserves, financial instruments | | (33,482) | 12,512 |
| Foreign currency translation reserve | | (176,574) | (435,797) |
| Net income for the period | | (758,016) | (253,695) |
| Treasury shares | | (49,003) | (40,577) |
| **Equity, Group share** | | **3,283,530** | **2,816,729** |
| **Non-controlling interests** | **15** | **494,432** | **432,774** |
| **TOTAL EQUITY** | | **3,777,962** | **3,249,503** |
| Shareholder loan | | 83,172 | 78,956 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank loans and other borrowings | 16 | 1,120,648 | 1,061,459 |
| Employee benefits | 19 | 226,763 | 224,731 |
| Provisions | 17 | 95,688 | 91,870 |
| Deferred tax liabilities | 5 | 80,494 | 57,067 |
| Other long-term liabilities | 18 | 25,712 | 23,927 |
| **TOTAL** | | **1,549,305** | **1,459,054** |
| **CURRENT LIABILITIES** | | | |
| Provisions | 17 | 280,296 | 192,257 |
| Overdrafts and other short-term borrowings | 16 | 1,453,096 | 1,418,435 |
| Trade payables | | 530,391 | 590,373 |
| Derivatives – liabilities | 8 | 105,293 | 12,065 |
| Tax liabilities | | 10,163 | 11,809 |
| Other current liabilities | 20 | 299,462 | 332,217 |
| **TOTAL** | | **2,678,701** | **2,557,156** |
| Total liabilities held for sale | 11 | 43,211 | - |
| **TOTAL EQUITY AND LIABILITIES** | | **8,132,351** | **7,344,669** |

## PRESENTATION OF PERFORMANCE

### Consolidated income statement

| *In € thousand* | Notes | H1 2016 | H1 2017 |
|---|---|---|---|
| **Revenue** | **23** | **1,433,723** | **1,715,589** |
| Cost of sales [(a)] | 24 | (1,312,181) | (1,502,315) |
| Sales, general and administrative costs [(a)] | 25 | (224,756) | (221,306) |
| Other | 26 | (1,243) | (10,268) |
| **EBITDA** | | **(104,457)** | **(18,300)** |
| Depreciation of industrial assets | 27 | (140,104) | (150,614) |
| Other depreciation and amortization | 27 | (21,594) | (22,680) |
| Impairment of assets and goodwill | 28 | (68,248) | (244) |
| Asset disposals, restructuring costs and non-recurring items | 28 | (83,162) | 3,073 |
| **OPERATING INCOME/(LOSS)** | | **(417,565)** | **(188,765)** |
| Financial income | | 12,477 | 16,509 |
| Interest expenses | | (50,459) | (79,617) |
| Net interest expense | | (37,982) | (63,108) |
| Other financial income and expenses | | (25,483) | (30,910) |
| Other discounting expenses | | (4,933) | (6,786) |
| **NET FINANCIAL INCOME/(LOSS)** | **29** | **(68,398)** | **(100,804)** |
| **PRE-TAX INCOME/(LOSS)** | | **(485,963)** | **(289,569)** |
| Income tax | 30 | 46,389 | 18,237 |
| Share in net income/(loss) of associates | 3 | (2,440) | (3,781) |
| **NET INCOME/(LOSS) FROM CONTINUING OPERATIONS** | | **(442,014)** | **(275,113)** |
| **CONSOLIDATED NET INCOME/(LOSS)** | | **(442,014)** | **(275,113)** |
| Attributable to non-controlling interests | | (26,676) | (21,418) |
| **Group share** | | **(415,338)** | **(253,695)** |
| **Group share:** | | | |
| Earnings per share | 14 | (2.4) | (0.6) |
| Diluted earnings per share | 14 | (2.4) | (0.6) |

*(a) Before amortization and depreciation.*

## Statement of comprehensive income

| *In € thousand* | Notes | H1 2016 | H1 2017 |
|---|---|---|---|
| **CONSOLIDATED NET INCOME/(LOSS)** | | **(442,014)** | **(275,113)** |
| Other comprehensive income: | | | |
| Actuarial gains and losses on post-employment benefits | | (57,178) | (2,813) |
| Tax attributable to actuarial gains and losses on post-employment benefits | | 6,693 | 821 |
| **Items that will not be reclassified to profit or loss** | | **(50,485)** | **(1,992)** |
| Exchange differences on translating net assets of foreign entities | 13 and 15 | 179,102 | (297,370) |
| Change in fair value of hedging financial instruments | | 42,114 | 34,915 |
| Change in fair value of available-for-sale securities | | (4,387) | 8,665 |
| Tax relating to the change in fair value of hedging financial instruments | | (6,634) | 1,921 |
| Tax attributable to the change in fair value of available-for-sale securities | | - | - |
| **Items that may be reclassified subsequently to profit or loss** | | **210,195** | **(251,869)** |
| **OTHER COMPREHENSIVE INCOME/(LOSS) (NET OF TAX)** | | **159,710** | **(253,861)** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | | **(282,304)** | **(528,974)** |
| Attributable to non-controlling interests | | (33,942) | (60,288) |
| **Group share** | | **(248,362)** | **(468,686)** |

## Statement of changes in equity, Group share

| *In € thousand* | Capital | Additional paid-in capital | Consolidated reserves | Foreign currency translation reserve | Reserves – changes in fair value of financial instruments – net of tax | Treasury shares | Net income or loss for the period | Total equity, Group share | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **POSITION AS AT 31 DECEMBER 2015** | **271,377** | **1,058,872** | **2,794,668** | **(500,575)** | **(54,279)** | **(59,642)** | **(864,753)** | **2,645,668** | **391,941** | **3,037,609** |
| Change in foreign currency translation reserve | - | - | - | 185,083 | - | - | - | 185,083 | (5,981) | 179,102 |
| Actuarial gains and losses on retirement commitments | - | - | (49,195) | - | - | - | - | (49,195) | (1,290) | (50,485) |
| Financial instruments | - | - | - | - | 31,088 | - | - | 31,088 | 5 | 31,093 |
| *Other comprehensive income/(loss)* | - | - | *(49,195)* | *185,083* | *31,088* | - | - | *166,976* | *(7,266)* | *159,710* |
| **HY 2016 net income/(loss)** | **-** | **-** | **-** | **-** | **-** | **-** | **(415,338)** | **(415,338)** | **(26,676)** | **(442,014)** |
| *Comprehensive Income/(loss)* | - | - | *(49,195)* | *185,083* | *31,088* | - | *(415,338)* | *(248,362)* | *(33,942)* | *(282,304)* |
| Appropriation of 2015 net income/(loss) | - | - | (864,753) | - | - | - | 864,753 | - | - | - |
| Change in share capital and additional paid-in capital | 617,899 | 340,662 | - | - | - | - | - | 958,561 | - | 958,561 |
| Change in treasury shares | - | - | (9,770) | - | - | 13,139 | - | 3,369 | - | 3,369 |
| Dividends paid | - | - | - | - | - | - | - | - | (1,008) | (1,008) |
| Share-based payments | - | - | - | - | - | - | - | - | - | - |
| Changes in consolidation scope and other | - | - | (154) | - | 663 | - | - | 509 | (6,726) | (6,217) |
| **POSITION AS AT 30 JUNE 2016** | **889,276** | **1,399,534** | **1,870,796** | **(315,492)** | **(22,528)** | **(46,503)** | **(415,338)** | **3,359,745** | **350,265** | **3,710,010** |
| **POSITION AS AT 31 DECEMBER 2016** | **902,476** | **1,404,786** | **1,993,343** | **(176,574)** | **(33,482)** | **(49,003)** | **(758,016)** | **3,283,530** | **494,432** | **3,777,962** |
| Change in foreign currency translation reserve | - | - | - | (259,223) | - | - | - | (259,223) | (38,147) | (297,370) |
| Actuarial gains and losses on retirement commitments | - | - | (1,870) | - | - | - | - | (1,870) | (122) | (1,992) |
| Financial instruments | - | - | - | - | 46,102 | - | - | 46,102 | (601) | 45,501 |
| *Other comprehensive income/(loss)* | - | - | *(1,870)* | *(259,223)* | *46,102* | - | - | *(214,991)* | *(38,870)* | *(253,861)* |
| **HY 2017 net income/(loss)** | **-** | **-** | **-** | **-** | **-** | **-** | **(253,695)** | **(253,695)** | **(21,418)** | **(275,113)** |
| *Comprehensive Income/(loss)* | - | - | *(1,870)* | *(259,223)* | *46,102* | - | *(253,695)* | *(468,686)* | *(60,288)* | *(528,974)* |
| Appropriation of 2016 net income/(loss) | - | - | (758,016) | - | - | - | 758,016 | - | - | - |
| Change in share capital and additional paid-in capital | - | - | - | - | - | - | - | - | - | - |
| Change in treasury shares | - | - | (8,957) | - | - | 8,426 | - | (531) | - | (531) |
| Dividends paid | - | - | - | - | - | - | - | - | (262) | (262) |
| Share-based payments | - | - | - | - | - | - | - | - | - | - |
| Changes in consolidation scope and other | - | - | 2,524 | - | (108) | - | - | 2,416 | (1,108) | 1,308 |
| **POSITION AS AT 30 JUNE 2017** | **902,476** | **1,404,786** | **1,227,024** | **(435,797)** | **12,512** | **(40,577)** | **(253,695)** | **2,816,729** | **432,774** | **3,249,503** |

## Statement of changes in non-controlling interests

| *In € thousand* | Consolidated reserves | Foreign currency translation reserve | Reserves – changes in fair value of financial instruments – net of tax | Net income or loss for the period | Non-controlling interests |
|---|---|---|---|---|---|
| **POSITION AS AT 31 DECEMBER 2015** | **349,565** | **74,749** | **828** | **(33,201)** | **391,941** |
| Change in foreign currency translation reserve | - | (5,981) | - | - | (5,981) |
| Actuarial gains and losses on retirement commitments | (1,290) | - | - | - | (1,290) |
| Financial instruments | | | 5 | | 5 |
| *Other comprehensive income/(loss)* | *(1,290)* | *(5,981)* | *5* | *-* | *(7,266)* |
| **HY 2016 net income/(loss)** | - | - | - | **(26,676)** | **(26,676)** |
| *Comprehensive Income/(loss)* | *(1,290)* | *(5,981)* | *5* | *(26,676)* | *(33,942)* |
| Appropriation of 2015 net income/(loss) | (33,201) | - | - | 33,201 | - |
| Dividends paid | (1,008) | - | - | - | (1,008) |
| Changes in consolidation scope and other | (6,726) | - | - | - | (6,726) |
| **POSITION AS AT 30 JUNE 2016** | **307,340** | **68,768** | **833** | **(26,676)** | **350,265** |
| | | | | | |
| **POSITION AS AT 31 DECEMBER 2016** | **449,922** | **93,070** | **970** | **(49,530)** | **494,432** |
| Change in foreign currency translation reserve | - | (38,147) | - | - | (38,147) |
| Actuarial gains and losses on retirement commitments | (122) | - | - | - | (122) |
| Financial instruments | | | (601) | | (601) |
| *Other comprehensive income/(loss)* | *(122)* | *(38,147)* | *(601)* | *-* | *(38,870)* |
| **HY 2017 net income/(loss)** | - | - | - | **(21,418)** | **(21,418)** |
| *Comprehensive Income/(loss)* | *(122)* | *(38,147)* | *(601)* | *(21,418)* | *(60,288)* |
| Appropriation of 2016 net income/(loss) | (49,530) | - | - | 49,530 | - |
| Dividends paid | (262) | - | - | - | (262) |
| Changes in consolidation scope and other | (134) | (997) | 23 | - | (1,108) |
| **POSITION AS AT 30 JUNE 2017** | **399,874** | **53,926** | **392** | **(21,418)** | **432,774** |

## Statement of cash flows

| *In € thousand* | Notes | H1 2016 | H1 2017 |
|---|---|---|---|
| **Consolidated net income (including non-controlling interests)** | | **(442,014)** | **(275,113)** |
| Net amortization, depreciation and provisions | | 259,097 | 123,678 |
| Unrealized gains and losses linked to changes in fair value | | 8,015 | 18,521 |
| Income and expenses linked to share options and equivalent | | 652 | 1,632 |
| Capital gains and losses on disposals | | 38,770 | (1,067) |
| Share of net income in associates | 3 | 2,440 | 3,782 |
| Dividends reclassified as cash flows from investing activities | | (397) | (1,026) |
| **Cash flow from operating activities after net financial cost and taxes** | | **(133,437)** | **(129,593)** |
| Net financial cost | 29 | 37,982 | 63,108 |
| Tax expense (including deferred taxes) | 30 | (46,389) | (18,237) |
| **Cash flow from operating activities before net financial cost and taxes** | | **(141,844)** | **(84,722)** |
| Interest paid | | (50,460) | (79,617) |
| Tax paid | | (23,102) | (11,963) |
| Interest received | | 12,481 | 16,412 |
| **Cash flow from operating activities** | | **(202,925)** | **(159,890)** |
| Change in operating working capital requirements | 12 | (41,373) | (104,341) |
| **NET CASH FLOW FROM OPERATING ACTIVITIES (1)** | | **(244,298)** | **(264,231)** |
| Cash outflows for acquisitions of property, plant and equipment and intangible assets | 2.1 | (69,041) | (58,691) |
| Cash outflows for acquisitions of biological assets | 2.1 | (3,933) | (2,334) |
| Cash inflows from disposals of property, plant and equipment and intangible assets | | 518 | 753 |
| Impact of acquisitions (changes in consolidation scope) | | - | (537) |
| Cash of subsidiaries acquired (changes in consolidation scope) | | - | - |
| Impact of disposals (changes in consolidation scope) | | 1,000 | (24,000) |
| Cash of subsidiaries sold (changes in consolidation scope) | | 780 | (1,193) |
| Other cash flows from investing activities | | 3,500 | 1,026 |
| **NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (2)** | | **(67,176)** | **(84,976)** |
| Increase and decrease in equity | | 958,560 | - |
| Dividends paid during the year | | | |
| › Dividends paid in cash to shareholders in the parent company | | - | - |
| › Dividends paid to non-controlling interests | | (1,078) | (262) |
| Movements in treasury shares | | 3,369 | (531) |
| Proceeds drawn from new borrowings | | 812,904 | 882,392 |
| Repayments of borrowings | | (651,472) | (931,681) |
| Change in percentage interest in controlled companies | | - | - |
| Other cash flows from financing activities | | (60,092) | (5,159) |
| **CASH FLOW FROM FINANCING ACTIVITIES (3)** | | **1,062,191** | **(55,241)** |
| Impact of changes in exchange rates (4) | | 40,324 | (15,131) |
| **CHANGE IN CASH (1 + 2 + 3 + 4)** | | **791,041** | **(419,579)** |
| **Opening net cash** | | **624,559** | **1,277,114** |
| **Closing net cash** | | **1,415,600** | **857,535** |
| Change | | 791,041 | (419,579) |

Net cash represents cash and cash equivalents less bank overdrafts with an initial maturity of less than three months.

### Statement of changes in net debt in HY 2017

| *In € thousand* | Notes | 31/12/2016 | Change | 30/06/2017 |
|---|---|---|---|---|
| Gross cash (1) | 10 | 1,286,722 | (420,176) | 866,546 |
| Bank current accounts in debit and overdrafts (2) | 16 | 9,608 | (597) | 9,011 |
| **CASH (3) = (1) - (2)** | | **1,277,114** | **(419,579)** | **857,535** |
| Gross financial debt (4) | 16 | 2,564,136 | (93,253) | 2,470,883 |
| **NET FINANCIAL COST = (4) - (3)** | | **1,287,022** | **326,326** | **1,613,348** |

### Statement of changes in net debt in HY 2016

| *In € thousand* | 31/12/2015 | Change | 30/06/2016 |
|---|---|---|---|
| Gross cash (1) | 630,540 | 796,559 | 1,427,099 |
| Bank current accounts in debit and overdrafts (2) | 5,981 | 5,518 | 11,499 |
| **CASH (3) = (1) - (2)** | **624,559** | **791,041** | **1,415,600** |
| Gross financial debt (4) | 2,143,816 | 215,495 | 2,359,311 |
| **NET FINANCIAL COST = (4) - (3)** | **1,519,257** | **(575,546)** | **943,711** |

## Summary notes to the consolidated financial statements for H1 2017

(In € thousand unless stated otherwise)

## A – Consolidation principles

### 1. Framework for the preparation and presentation of the financial statements

The interim consolidated financial statements as at 30 June 2017, as well as the notes relating thereto were approved by the Vallourec Management Board on 24 July 2017.

In application of Regulation No. 1606/2002 of the European Commission, which was adopted on 19 July 2002 for all listed companies of the European Union, Vallourec's consolidated financial statements were prepared for the year ended 31 December 2016, in compliance with the International Financial Reporting Standards (IFRS), based on the standards and interpretations applicable at that date.

The interim consolidated financial statements as at 30 June 2017 were prepared based on the standards and interpretation of the current IFRS [1] which were adopted by the European Union, which shall apply to the consolidated annual financial statements as at 31 December 2017, in accordance with the specific provisions of IAS 34 – Interim Financial Reporting.

The purpose of the interim financial statements is to provide shareholders and investors with pertinent information about major events and transactions for the period. This information is notably provided through a selection of attached notes which are intended to explain significant changes in the balance sheet between 31 December 2016 and 30 June 2017, as well as the primary operations which contributed to the net profit for H1 2017. The interim financial statements do not comprise all of the information that is required for complete annual financial statements, and must be read in conjunction with the Group's financial statements for the fiscal year ended 31 December 2016, registered with the AMF, on 21 March 2017 (available on the Company website at www.vallourec.com).

#### NEW STANDARDS NOT APPLIED EARLY

The IASB issued IFRS 15 – Revenue from Contracts with Customers, which introduced a new model of accounting for these revenues for contracts with customers and will replace IAS 11, IAS 18 and the IFRIC and SIC interpretations related to revenue recognition.

*(1) The IFRS framework as adopted in the European Union may be consulted on the European Commission's website ( HYPERLINK "http://ec.europa.eu/internal_market/accounting/ias/index_en.htm"\t"_blank" http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).*

The IASB finalized its replacement plan for IAS 39 on financial instruments, publishing the full version of IFRS 9. This introduced changes especially relating to the classification of financial assets, the impairment model, and risk hedging.

The IASB published IFRS 16 Leases, which introduced a new accounting model for leases and will replace IAS 17 and related interpretations.

The Group is currently assessing the potential impact of first-time adoption of these texts which could become mandatory on 1 January 2018, and does not plan to opt for early application.

The Group has not opted for early application of any standards or interpretations that will be mandatory for fiscal years beginning on or after 1 January 2018.

The accounting methods and options used in approving the 2017 half-year financial statements could be modified according to changes in IFRS that are adopted by the European Commission between now and 31 December 2017.

### 2. Accounting principles and methods

The accounting principles and measurement methods have been applied consistently to the periods presented. The interim financial statements have been prepared according to the same rules and methods that were used to prepare the annual financial statements. However, for interim financial statements, and in compliance with IAS 34, certain measurements, unless otherwise indicated, may rely more on estimates than on annual financial data.

The preparation of the consolidated financial statements in compliance with IFRS requires that Management record assumptions and estimates which affect the amounts of assets and liabilities that appear in the statement of financial position, any assets and liabilities mentioned in the notes, as well as the revenue and expenses in the income statement. The final amounts may differ from the estimates and assumptions used. The main estimates and assumptions are identical to those described in the notes to the consolidated financial statements for the year ended 31 December 2016.

The Group primarily reviewed the following estimates for the end of the first half: the evaluation of property, plant and equipment, intangible assets, goodwill, financial assets, derivative financial instruments, inventories and work in progress, provisions for contingencies and liabilities, biological assets and deferred taxes. Where necessary, tests are performed to measure the sensitivity of these estimates. In the current economic climate (uncertainty over economic development, a highly competitive international environment, and volatility of the costs of commodities and energy), the random nature of some estimates may be exaggerated, and may notably make it more difficult to determine the Group's economic outlook in order to conduct asset depreciation tests. A Group stock market value that is less than its consolidated net assets during a business cycle, a negative outlook associated with the economic, legislative or technological environment or a business sector would constitute an indication of impairment. As at 30 June 2017, the Group had analyzed the position of the various CGUs, and concluded on the basis of an update of the sensitivity analyses that there was no sign of an impairment loss as at 30 June 2017.

The Group's business is not significantly affected by seasonality.

## B – Consolidation Scope

On 26 January 2017, Vallourec and Asco Industries completed the acquisition by the latter of a majority interest in the Saint-Saulve steel mill that appears in the statement of financial position as at 31 December 2016 in assets and liabilities held for sale.

SAS Ascoval is owned 60% by Asco Industries and 40% by Vallourec Tubes France, and is consolidated using the equity method from the transaction date.

For the record, the main changes in scope of consolidation in 2016 took place in H2 (acquisition of a stake in Tianda on 2 December 2016 and takeover of Vallourec Soluções Tubulares do Brasil (formerly Vallourec & Sumitomo Tubos do Brasil Ltda) on 1 October 2016).

## D – Notes to the consolidated financial statements (in € thousand)

## NOTE 1 Intangible assets and goodwill

| | Concessions, patents, licenses and other rights | Other intangible assets | Total intangible assets | Goodwill |
|---|---|---|---|---|
| **GROSS VALUES** | | | | |
| **As at 31/12/2016** | **93,964** | **541,957** | **635,921** | **653,126** |
| Acquisitions | 7 | 498 | 505 | - |
| Disposals | (71) | - | (71) | - |
| Impact of changes in exchange rates | (1,417) | (36,302) | (37,719) | (43,834) |
| Other changes | (2,008) | (24) | (2,032) | 6,022 |
| **AS AT 30/06/2017** | **90,475** | **506,129** | **596,604** | **615,314** |
| **AMORTIZATION AND IMPAIRMENT** | | | | |
| **As at 31/12/2016** | **(71,920)** | **(439,019)** | **(510,939)** | **(270,442)** |
| Net amortization expenses for the fiscal year | (2,738) | (11,790) | (14,528) | - |
| Impairment (see Note 2.3) | - | - | - | - |
| Disposals | 71 | - | 71 | - |
| Impact of changes in exchange rates | 1,110 | 29,996 | 31,106 | 14,151 |
| Other changes | 2,207 | 1 | 2,208 | 60 |
| **AS AT 30/06/2017** | **(71,270)** | **(420,812)** | **(492,082)** | **(256,231)** |
| **NET VALUES** | | | | |
| **As at 31/12/2016** | **22,044** | **102,938** | **124,982** | **382,684** |
| **AS AT 30/06/2017** | **19,205** | **85,317** | **104,522** | **359,083** |

The other changes include the adjustment to goodwill for Tianda and Vallourec Soluções Tubulares do Brasil.

## NOTE 2.1 Property, plant and equipment

| | Land | Buildings | Technical installations, industrial equipment and tools | Assets under construction | Other tangible assets | Total |
|---|---|---|---|---|---|---|
| **GROSS VALUES** | | | | | | |
| **As at 31/12/2016** | **150,860** | **907,200** | **4,770,897** | **134,407** | **387,832** | **6,351,197** |
| Acquisitions | 471 | 577 | 2,749 | 28,971 | 14,959 | 47,727 |
| Disposals | (5) | (868) | (8,893) | (365) | (2,269) | (12,400) |
| Impact of changes in exchange rates | (10,221) | (53,478) | (257,467) | (6,263) | (25,399) | (352,828) |
| Other changes | 371 | 7,575 | 13,567 | (21,242) | 3,865 | 4,136 |
| **AS AT 30/06/2017** | **141,476** | **861,006** | **4,520,853** | **135,508** | **378,988** | **6,037,832** |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | |
| **As at 31/12/2016** | **(42,012)** | **(329,478)** | **(2,151,934)** | **(3,862)** | **(206,297)** | **(2,733,583)** |
| Net depreciation expenses for the fiscal year | (728) | (16,563) | (126,131) | - | (12,267) | (155,689) |
| Impairment losses (see Note 2.3) | (244) | - | - | - | - | (244) |
| Disposals | - | 607 | 10,476 | - | 666 | 11,749 |
| Impact of changes in exchange rates | 3,029 | 15,690 | 90,130 | 128 | 13,418 | 122,395 |
| Other changes | 93 | (3,756) | (2,236) | - | 178 | (5,721) |
| **AS AT 30/06/2017** | **(39,862)** | **(333,500)** | **(2,179,695)** | **(3,734)** | **(204,302)** | **(2,761,093)** |
| **NET VALUES** | | | | | | |
| **As at 31/12/2016** | **108,848** | **577,722** | **2,618,963** | **130,545** | **181,535** | **3,617,614** |
| **AS AT 30/06/2017** | **101,614** | **527,506** | **2,341,158** | **131,774** | **174,686** | **3,276,739** |

### Capital expenditure excluding changes in scope

| | 31/12/2016 | | 30/06/2017 | |
|---|---|---|---|---|
| | Intangible assets and property, plant and equipment | Biological | Intangible assets and property, plant and equipment | Biological (see Note 2.2) |
| Europe | 95,600 | - | 27,521 | - |
| North America | 18,001 | - | 3,548 | - |
| South America | 47,151 | 6,584 | 14,207 | 2,334 |
| Asia | 9,020 | - | 2,951 | - |
| Other | 120 | - | 5 | - |
| **TOTAL** | **169,892** | **6,584** | **48,232** | **2,334** |
| | **176,476** | | **50,566** | |
| Note 1: acquisition of intangible assets | 1,503 | - | 505 | - |
| Note 2.1: acquisition of property, plant and equipment | 168,390 | 6,584 | 47,727 | 2,334 |
| **Total industrial capital expenditure** | **169,893** | **6,584** | **48,232** | **2,334** |
| Changes in fixed asset liabilities and partner contributions | (1,090) | - | 10,459 | - |
| **TOTAL** | **168,802** | **6,584** | **58,691** | **2,334** |
| Statement of cash flows: capital expenditure paid out during the year: | 175,386 | | 61,025 | |

## NOTE 2.2 Biological assets

| Change in biological assets | Total |
|---|---|
| **As at 31/12/2016** | **88,411** |
| Investments | 2,334 |
| Valuation at fair value | 1,170 |
| Net depreciation expenses for the period | (3,077) |
| Impairment losses | - |
| Reclassification to inventory | (1,730) |
| Foreign exchange differences | (7,638) |
| Other changes | - |
| **AS AT 30/06/2017** | **79,470** |

## NOTE 2.3 Impairment

In addition to the systematic annual tests on the CGUs including goodwill, which are performed at each year-end based on the strategic plan, at each interim reporting date the Group performs one-off tests in case of indications of impairment on a CGU or an isolated asset.

As at 30 June 2017, there is no indication of impairment resulting in the recognition of impairment losses.

## NOTE 3 Associates

The Group's main associates (individual carrying amount greater than €50 million) are listed below:

| | HKM Allemagne | Others | Total |
|---|---|---|---|
| Activity | Steel mill | | |
| Business location | Germany | | |
| **As at 31/12/2016** | **80,686** | **44,114** | **124,800** |
| Impact of changes in exchange rates | - | (10,191) | (10,191) |
| Dividends paid | - | - | - |
| Change in consolidation scope (note 11) | - | 12,183 | 12,183 |
| Contribution to net income of the period | - | (3,782) | (3,782) |
| **AS AT 30/06/2017** | **80,686** | **42,324** | **123,010** |

## NOTE 4 Other non-current assets

| | Other equity interests | Loans | Other financial assets | Other non-current assets | Provisions | Total |
|---|---|---|---|---|---|---|
| **As at 31/12/2016** | **79,576** | **5,031** | **58,034** | **215,283** | **(9,353)** | **348,571** |
| Impact of changes in exchange rates | (353) | (79) | (4,004) | (14,315) | 673 | (18,078) |
| Changes in gross values | (4,328) | (88) | (1,368) | (25,890) | - | (31,674) |
| Increase in provisions | - | - | - | - | (4,110) | (4,110) |
| Reversals of provisions | - | - | - | - | 1,168 | 1,168 |
| Others changes | - | - | 271 | - | - | 271 |
| **AS AT 30/06/2017** | **74,895** | **4,864** | **52,933** | **175,078** | **(11,622)** | **296,148** |

As at 30 June 2017, available-for-sale equity securities related almost exclusively to Nippon Steel & Sumitomo Metal Corp, listed on the Tokyo Stock Exchange.

The fair value of these shares as at 30 June 2017, based on their NAV, was €69 million.

The difference between the purchase price and the fair value at the reporting date was reclassified in the income statement, representing a loss of €13 million at the end of June 2017, in view of the permanent nature of the impairment. For the record, as at 31 December 2016, the impairment was recognized directly in equity.

Other financial investments consist mainly of interest-bearing security deposits, mainly paid in connection with tax disputes in Brazil (€39 million at 30 June 2017; see also Note 17).

Other non-current assets consist mainly of €146 million in deferred tax receivables in Brazil and the United States.

## Maturities of other non-current assets (without provisions)

| 30/06/2017 | 1 to 5 years | 5 years or more | Total |
|---|---|---|---|
| Loans | 3,653 | 1,211 | 4,864 |
| Other equity interests | - | 74,895 | 74,895 |
| Other financial assets | 166,269 | 61,742 | 228,011 |
| **TOTAL** | **169,922** | **137,848** | **307,770** |

## NOTE 5 Deferred taxes

| | 31/12/2016 | 30/06/2017 |
|---|---|---|
| Deferred tax assets | 190,269 | 198,379 |
| Deferred tax liabilities | 80,494 | 57,067 |
| **NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)** | **109,775** | **141,312** |

Changes in deferred taxes are broken down as follows:

| Net deferred tax assets/(liabilities) | H1 2017 |
|---|---|
| **AS AT 1 JANUARY 2017** | **109,775** |
| Impact of changes in exchange rates | (12,408) |
| Recognized in net income | 44,633 |
| Recognized in reserves | 2,756 |
| Other | (3,444) |
| **AS AT 30 JUNE 2017** | **141,312** |

The amount of deferred tax relating to tax loss carryforwards that was not recognized was €591 million at 30 June 2017. It concerns the unrecognized deferred tax at 31 December 2016 (€513 million on earlier tax losses), supplemented by the non-recognition of deferred tax assets relating to the tax loss carryforwards of €78 million for the period.

## NOTE 6 Inventories and work in progress

| | Raw materials and merchandise | Goods in production | Intermediate and finished goods | Total |
|---|---|---|---|---|
| **GROSS VALUES** | | | | |
| **As at 31/12/2016** | **498,720** | **318,815** | **422,977** | **1,240,512** |
| Changes in inventories recognized in the income statement | 21,231 | 117,545 | 70,257 | 209,033 |
| Impact of changes in exchange rates | (24,386) | (16,734) | (24,584) | (65,704) |
| Other changes | (4,057) | - | (1,463) | (5,520) |
| **AS AT 30/06/2017** | **491,508** | **419,626** | **467,187** | **1,378,321** |
| **IMPAIRMENT** | | | | |
| **As at 31/12/2016** | **(106,432)** | **(24,567)** | **(74,764)** | **(205,763)** |
| Impact of changes in exchange rates | 3,140 | 941 | 2,774 | 6,855 |
| Allowances | (21,168) | (6,138) | (19,815) | (47,121) |
| Reversals of provisions | 21,655 | 1,265 | 11,953 | 34,873 |
| Other changes | 5,766 | (111) | (11,310) | (5,655) |
| **AS AT 30/06/2017** | **(97,039)** | **(28,610)** | **(91,162)** | **(216,811)** |
| **NET VALUES** | | | | |
| **As at 31/12/2016** | **392,288** | **294,248** | **348,213** | **1,034,749** |
| **AS AT 30/06/2017** | **394,469** | **391,016** | **376,025** | **1,161,510** |

The cost of any under utilized capacity is excluded from the value of inventories. Made-to-order products are impaired, where applicable, for the unaffected portion and valued at scrap metal prices (if applicable). Inventories are impaired based on their realizable values.

## NOTE 7 Trade and other receivables

| | Advances and partial payments on orders | Trade and other receivables (gross) | Provisions for impairment | Total |
|---|---|---|---|---|
| **As at 31/12/2016** | **28,115** | **551,053** | **(32,950)** | **546,218** |
| Impact of changes in exchange rates | (1,116) | (29,332) | 775 | (29,673) |
| Changes in gross values | (7,527) | 87,041 | - | 79,514 |
| Increase in provisions | - | - | (4,428) | (4,428) |
| Reversals of provisions | - | - | 2,349 | 2,349 |
| Other changes | - | (888) | - | (888) |
| **AS AT 30/06/2017** | **19,472** | **607,874** | **(34,254)** | **593,092** |

Transactions involving receivables without recourse were carried out by the Group with financial institutions for a value of €89 million. The amount of corresponding receivables no longer appears in the Group's consolidated balance sheet.

# NOTE 8 Financial instruments

## Financial assets and liabilities

Financial assets and liabilities are measured and presented in the statement of financial position in accordance with the various categories specified by IAS 39.

### 8.1 Impact of IAS 32 and IAS 39 on equity and net income

From a net liability position of -€47.3 million as at 31 December 2016, hedging assets moved to a net asset position of €26.7 million as at 30 June 2017.

Fluctuations in the euro against the US dollar in H1 2017 accounted for most of the €40.4 million change in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the €21.9 million change in the intrinsic value of hedges of foreign currency receivables and payables.

Financial instruments of a speculative nature remain exceptional and arise when a hedging relationship is ineffective under the terms of IAS 39. Their changes in value do not have a material impact on foreign exchange gains or losses.

| Statement of financial position items | As at 31/12/2016 | As at 30/06/2017 | Changes in H1 2017 | | | |
|---|---|---|---|---|---|---|
| | | | Total | Reserves | Reclassification | Net Income |
| **1 - Derivatives** [(a)] | | | | | | |
| Changes in the intrinsic value of forward sales of currencies and forward purchases [(b)] associated with order books and commercial tenders | (24,626) | 15,769 | 40,395 | 40,818 | (1,657) | 1,234 |
| Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [(b)]) | (17,140) | 4,750 | 21,890 | 29 | 3,287 | 18,574 |
| Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with financial receivables (and financial payables) | (18,193) | 11,608 | 29,801 | (46) | - | 29,847 |
| Recognition of premium/discount | 9,785 | (8,132) | (17,917) | (60) | (16,577) | (1,280) |
| Recognition of changes in fair value of interest rate swaps | - | - | - | - | - | - |
| Changes in values linked to hedging instruments set up under employee share ownership schemes | 2,866 | 2,717 | (149) | (88) | - | (61) |
| **SUBTOTAL: DERIVATIVES** | **(47,308)** | **26,712** | **74,020** | **40,653** | **(14,947)** | **48,314** |
| › of which derivatives – assets | 57,985 | 38,777 | | | | |
| › of which derivatives – liabilities | 105,293 | 12,065 | | | | |
| **2 - Receivables (debts) used to hedge commercial transactions** | | | | | | |
| Order book | | (3,890) | (3,890) | (5,547) | 1,657 | - |
| Trade receivables | | (1,930) | (1,930) | - | 13,290 | (15,220) |
| **3 - Receivables (payables [(b)]) hedged in currencies –translation gain/loss** | | | | | | |
| Measurement as at the reporting date exchange rate (trade payables and accounts receivable [(b)]) | 20,389 | 11,026 | (9,363) | - | - | (9,363) |
| Measurement as at the reporting date exchange rate (financial liabilities and accounts receivable [(b)]) | 16,907 | (8,599) | (25,506) | - | - | (25,506) |
| **Impact of hedging Transactions** | **(10,012)** | **23,319** | **33,331** | **35,106** | **-** | **(1,775)** |
| **4 - Measurement of other investments in equity instruments at fair value** | **(8,665)** | **(12,993)** | **(4,328)** | **8,665** | **-** | **(12,993)** |
| **TOTAL** | **(18,677)** | **10,326** | **29,003** | **43,771** | **-** | **(14,768)** |

*(a) Assets and liabilities offset in this table: + = asset, ( ) = liability.*

*(b) Non-significant amounts.*

The change in the fair value of financial instruments hedging foreign exchange risk, which affected equity as at 31 December 2016, was €(24.7) million. In H1 2017, around 65% of the positive change in fair value attached to the order book and commercial tenders at the end of 2016 was transferred from equity to the statement of comprehensive income, under "translation gain/loss". This amount represents the impact of the changes in value of foreign exchange hedges for the order book and commercial tenders as at 31 December 2016, which were fully or partially unwound or converted into receivables during H1 2017.

This corresponds mainly to the hedges of receivables in US dollars, which represent nearly all the hedges with an impact on equity as at 31 December 2016.

## 8.2 Information on the nature and extent of market risk and how it is managed by the Group

Market risk is comprised of interest rate, foreign exchange (conversion and transactions), credit and equity risk. Liquidity risk is addressed in Note 16.

### Interest rate risk

Management of medium- and long-term financing within the euro zone is centralized at Vallourec and the sub-holding company Vallourec Tubes.

#### Total liabilities

| 31/12/2016 | Other borrowings | Cash |
|---|---|---|
| Fixed rate on date granted | 2,325,628 | - |
| Variable rate on date granted swapped to fixed rate | - | - |
| **Fixed rate** | **2,325,628** | **-** |
| **Variable rate** | **247,460** | **1,286,722** |
| **TOTAL** | **2,573,088** | **1,286,722** |

| 30/06/2017 | Other borrowings | Cash |
|---|---|---|
| Fixed rate on date granted | 2,059,606 | - |
| Variable rate on date granted swapped to fixed rate | - | - |
| **Fixed rate** | **2,059,606** | **-** |
| **Variable rate** | **420,288** | **866,546** |
| **TOTAL** | **2,479,894** | **866,546** |

The Group is exposed to interest rate risk on its variable rate debt.

The amount of loans with fixed rates on the dates granted primarily consists of bonds and commercial paper issued by Vallourec:

- in August 2012, two long-term private bond issues for a total of €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3,25% for one, and €55 million for 15 years with an annual coupon of 4,125%;
- on 30 September 2014, a €500 million bond issue, maturing in September 2024, with a fixed annual coupon of 2,25%;
- outstanding commercial paper in the amount of €434 million.

Furthermore, in December 2009, Vallourec Soluções Tubulares do Brasil took out a loan with BNDES (Banco National de Desenvolvimento Econômico e Social). As at 30 June 2017, BRL 31 million of this loan, at a fixed rate of 4.5%, had been drawn. Vallourec Soluções Tubulares do Brasil also concluded a fixed-rate finance lease in 2010.

As at 30 June 2017, financial debt exposed to changes in variable interest rates was €420 million (about 17% of total liabilities).

No significant line of fixed rate financing will reach contractual maturity during the 12 months after 30 June 2017, except for:

- €434 million in outstanding commercial paper maturing in more than one year;
- the finance lease in the US for €28 million;
- €31 million for various lines of financing in the Group's Brazilian subsidiaries.

Given the Group's interest rate risk hedging policy, the impact of a 1% rise in short-term rates in the euro zone, on Brazilian and Chinese rates and UK and US money market rates would result in a €4.2 million increase in the Group's annual financial expenses, based on an assumption of complete stability of the financial liabilities and constant exchange rates, and after taking into account the effects of any hedging instruments. This impact does not take into account the interest rate risk on commercial paper with a more than one year maturity or on short-term cash investments (of no more than three months).

### Foreign currency translation risk

The assets, liabilities, revenues and expenses of the Group's subsidiaries are expressed in various currencies. The Group's financial statements are presented in euros. The assets, liabilities, revenues and expenses denominated in currencies other than the euro have to be translated into euros at the applicable rate so that they can be consolidated.

If the euro rises (or falls) against another currency, the value in euros of the various assets, liabilities, revenues and expenses initially recognized in that other currency will fall (or rise). Therefore, changes in the value of the euro may have an impact on the value in euros of the assets, liabilities, revenues and costs not denominated in euros, even if the value of these items in their original currency has not changed.

As at 30 June 2017, net income, Group share, was generated to a significant extent by subsidiaries that prepare their financial statements in currencies other than the euro (mainly in US dollars and the Brazilian real). A 10% change in exchange rates would have had an upward or downward impact on net income, Group share, of around €3.9 million.

In addition, the Group's sensitivity to long-term foreign exchange rate risk is reflected in the changes that have occurred in recent years in the foreign currency translation reserves booked to equity (-€435,8 million as at 30 June 2017) which, in recent years, have been linked mainly to movements in the US dollar and Brazilian real.

| Foreign currency translation reserve – Group share | 31/12/2016 | 30/06/2017 |
|---|---|---|
| USD | 343,878 | 247,621 |
| GBP | (11,583) | (11,775) |
| BRL | (529,697) | (673,259) |
| CNY | 34,276 | 19,071 |
| Other | (13,448) | (17,455) |
| **TOTAL** | **(176,574)** | **(435,797)** |

### Transaction risk

The Group is subject to exchange rate risks due to its business exposure linked to sales and purchase transactions entered into by some of its subsidiaries in currencies other than their functional currency.

The main foreign currency involved is the US dollar (USD): a significant portion of Vallourec's transactions (approximately 38% of Group revenue in 30 June 2017) are invoiced in US dollars by companies whose functional currency is not the US dollar.

Exchange rate fluctuations between the euro, the Brazilian real (BRL) and the US dollar may therefore affect the Group's operating margin. Their impact is, however, very difficult to quantify for two reasons:

1. there is an adjustment effect on selling prices denominated in US dollars related to market conditions in the various sectors of activity in which Vallourec operates;
2. certain sales and purchases, even though they are denominated in euros or Brazilian reals, are influenced by the level of the US dollar. They are therefore indirectly and at some time in the future affected by movements in the US currency.

The Group actively manages its exposure to foreign exchange risk to reduce the sensitivity of its net profits to currency fluctuations by setting up hedges once the order is placed and sometimes once a quotation is given.

Orders, and then receivables, payables and operating cash flows, are thus hedged with financial instruments, mainly forward purchases and sales. The Group sometimes uses options.

Order cancellations could therefore result in the cancellation of hedges in place, leading to the recognition in the consolidated income statement of gains and losses with regard to these canceled hedges.

We estimate that a 10% rise or fall in the currencies used in all hedges implemented by the Group would result in a €53.7 million decrease or increase in the intrinsic value recognized in consolidated equity as at 30 June 2017. Most of these amounts would be due to changes in the US dollar against the euro, and to a lesser extent, the Brazilian real against the euro.

To be eligible for hedge accounting as defined under IAS 39, the Vallourec Group has developed its cash management and invoicing systems to facilitate the traceability of hedged transactions throughout the duration of the hedging instruments.

As at 30 June 2017, the following amounts were outstanding under forward foreign exchange contracts to hedge purchases and sales denominated in foreign currencies:

| Hedging contracts with regard to commercial transactions – Exchange rate risk | As at 31/12/2016 | As at 30/06/2017 |
|---|---|---|
| Forward exchange contract: forward sales | 1,074,559 | 886,978 |
| Forward exchange contract: forward purchases | 45,218 | 76,335 |
| Currency options: sales | - | - |
| Currency options: purchases | - | - |
| Raw materials and energy: call options | - | - |
| **TOTAL** | **1,119,777** | **963,313** |

### Contract maturities as at 30 June 2017

| Contracts on commercial transactions | Total | < 1 year | 1 to 5 years | > 5 years |
|---|---|---|---|---|
| Forward exchange contract: forward sales | 886,978 | 884,646 | 2,332 | - |
| Forward exchange contract: forward purchases | 76,335 | 76,335 | - | - |
| Currency options: sales | - | - | - | - |
| Currency options: purchases | - | - | - | - |
| Raw materials and energy: call options | - | - | - | - |
| **TOTAL** | **963,313** | **960,981** | **2,332** | **-** |

Forward sales correspond mainly to sales of US dollars (€887 million of the €963 million total). These contracts were transacted at an average forward EUR/USD rate of 1.12 and an average forward USD/BRL rate of 3.36.

In 2017, as in 2016, the hedges entered into generally covered an average period of about 10 months and mainly hedged highly probable future transactions and foreign currency receivables.

In addition, the Group is using the ACC-ACE in Brazil to cover its sales in dollars. At June 30, 2017, the amount of the ACC-ACEs was €202.6 million.

In addition to hedges on commercial transactions, Vallourec has implemented hedging contracts for financial loans and receivables denominated in foreign currencies:

- forward sales for USD 248.6 million (€225 million);
- forward sales for CNY 150 million (€20 million);
- forward sales in USD and GBP to hedge the positions linked to the centralization of cash in foreign currency at Vallourec Tubes for €212.5 million.

These instruments are intended to hedge either the debt denominated in USD, or the foreign currency loans established by the financial holding company Vallourec Tubes in the currency of the subsidiaries receiving them. The forward purchases and sales mature at various times in 2017, as and when the hedged loans and borrowings mature.

Other than its foreign-currency-denominated borrowings, Vallourec does not hedge any of the other foreign currency assets and liabilities in its consolidated statement of financial position (foreign currency translation risks).

## Credit risks

Vallourec is subject to credit risk in respect of its non-impaired financial assets. Failure to recover these assets could affect the Company's results and financial position.

The Group has identified four main types of receivables that have these characteristics:

- 1% building loans granted to the Group's employees;
- security deposits paid in connection with tax disputes and the tax receivables due to the Group in Brazil;
- trade and other receivables;
- derivatives that have a positive fair value.

1. 1% building loans granted to the Group's employees: these loans do not expose the Group to any credit risk since the full amount of the loan is written off as soon as there is any delay in the collection of the amounts due. It should be noted that these loans are determined according to the effective interest rate method applied to the expected cash flows until the maturity dates of these loans (the contract interest rates may be lower).
2. Security deposits and tax receivables due to the Group in Brazil: there is no specific risk with respect to these receivables, even if the outcome of the disputes is unfavorable, since the risk has already been assessed and a provision recognized for these receivables, and the funds have already been paid in full or in part.
3. The Group's policy on the impairment of trade receivables is to recognize a provision when indications of impairment are identified. The impairment is equal to the difference between the carrying amount of the asset and the present value of expected future cash flows, taking into account the position of the counterparty.

The Group considers that as at 30 June 2017 there is no reason to assume that there is any risk in respect of receivables for which no provision has been made and which are less than 90 days overdue. Trade receivables more than 90 days past due and not impaired amounted to €9 million at 30 June 2017, or 1.5% of the Group's total net trade receivables.

Vallourec considers that the risk is limited given its existing customer risk management procedures, which include:

- the use of credit insurance and documentary credits;
- the long-standing nature of the Group's commercial relations with major customers;
- the commercial collection policy.

Vallourec remains subject to country risk which could impact the payment of some of its receivables.

In addition, as at 30 June 2017, trade receivables not yet due amounted to €514.8 million, or 89.2% of total net trade receivables.

The maturities of these trade receivables are as follows (in € thousands):

| As at 30/06/2017 | 0 to 30 days | 30 to 60 days | 60 to 90 days | 90 to 180 days | > 180 days | Total |
|---|---|---|---|---|---|---|
| Trade receivables outstanding | 355,779 | 72,406 | 47,075 | 37,915 | 1,618 | 514,793 |

4. As concerns the derivatives that have a positive fair value, the Group only deals with highly-rated counterparties. The credit risk is considered to be insignificant.

## Equity risk

Treasury shares held by Vallourec as at 30 June 2017 include:

Shares allocated to various share ownership plans for some of the Group's employees, executive management and corporate officers.

In this context, Vallourec holds:

- 1,283 treasury shares acquired in 2011 under the share buyback plan of 7 June 2011, upon the definitive allocation of 27,534 shares in 2012, 86,377 shares in 2013, 91,929 shares in 2014, 108,600 shares in 2015, 30,524 shares in 2016 and 53,753 shares in 2016 under the various performance share plans;
- 1,131 treasury shares acquired in 2012 under the share buyback plan of 31 May 2012, upon the definitive allocation of 94,600 shares in 2014, 225,684 shares in 2016, and 78,585 shares in 2017 under the various performance share plans;
- 187,005 treasury shares acquired in 2014 after the definitive allocation of 112,995 shares in 2017, under the various performance share plans.

The Management Board, in consultation with the Supervisory Board, has decided to allocate these treasury shares to cover the Group's performance share and employee share ownership plans.

Additionally, Vallourec signed a liquidity contract with Rothschild & Cie Banque in 2012. It was implemented under the annual general authorization for the share buyback program approved by the Ordinary and Extraordinary Shareholders' Meeting of 12 May 2017 (twelfth resolution).

As at 30 June 2017, the liquidity account at Rothschild & Cie Banque comprised the following:

- 2,481,000 shares with a value of €13.2 million;
- €5,085,706.

## Classification and measurement of financial assets and liabilities

The amounts recognized in the statement of financial position are based on the measurement methods used for each financial instrument:

| 30/06/2017 | Notes | Category [(a)] | Gross value At 30/06/2017 | Amortized cost | Fair value through equity | Fair value through profit or loss |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Other non-current assets** | 4 | | | | | |
| Listed equity interests | | AFS | 68,954 | - | - | 68,954 |
| Other equity interests | | AFS | 5,941 | - | 5,941 | - |
| Loans | | L&R | - | - | - | - |
| Other financial assets | | L&R/AHM [(b)] | - | - | - | - |
| **Trade and other receivables** | 7 | **L&R** | **607,874** | **607,874** | **-** | **-** |
| **Derivatives – assets** | 8 | | | | | |
| Hedging financial instruments | | CFH | 17,005 | - | 17,005 | - |
| Hedging financial instruments [(f)] | | A-FVTPL | 21,772 | - | - | 21,772 |
| Speculative financial instruments | | A-FVTPL | - | - | - | - |
| **Other current assets** | 9 | **L&R** | **247,393** | **247,393** | **-** | **-** |
| **Cash and cash equivalents** | 10 | **A-FVTPL** | **866,546** | **-** | **-** | **866,546** |
| **LIABILITIES** | | | | | | |
| **Bank loans and other borrowings** [(c) (e)] | 16 | **AC-EIR** | **738,186** | **738,186** | **-** | **-** |
| **Other** | 16 | **AC-EIR** | **707,664** | **707,664** | **-** | **-** |
| **Finance leases** | 16 | **AC-EIR** | **74,218** | **74,218** | **-** | **-** |
| **Bond issues** | 16 | **AC-EIR** | **950,815** | **950,815** | **-** | **-** |
| **Overdrafts and other short-term borrowings** [(d) (e)] | 16 | **AC-EIR** | **9,011** | **9,011** | **-** | **-** |
| **Trade and other payables** | | **AC** | **590,373** | **590,373** | **-** | **-** |
| **Derivatives – liabilities** | 8 | | | | | |
| Hedging financial instruments | | CFH | 2,476 | - | 2,476 | - |
| Hedging financial instruments | | L-FVTPL | 9,587 | - | - | 9,587 |
| Speculative financial instruments | | L-FVTPL | 2 | - | - | 2 |
| **Other current liabilities** | 20 | **AC** | **332,217** | **332,217** | **-** | **-** |

*(a) A-FVTPL Financial assets measured at fair value through profit or loss.*
*AHM Assets held to maturity.*
*L & R Loans and receivables.*
*AFS Available-for-sale financial assets.*
*CFH Cash flow hedges.*
*L-FVTPL Financial liabilities measured at fair value through profit or loss.*
*AC Amortized cost.*
*AC-EIR Amortized cost according to the effective interest rate method.*

*(b) In the Vallourec Group, the only assets in this category are security deposits and guarantees.*

*(c) Borrowings classified within non-current liabilities maturing in more than 12 months.*

*(d) Borrowings that must be repaid within 12 months are classified as current liabilities.*

*(e) Variable rate borrowings for which interest rate swaps have been entered into are accounted for using the cash flow hedge method, Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.*

*(f) Including the Value 13, Value 14, Value 15 and Value 16 warrants, whose fair value as at 30 June 2017 was €2,7 million.*

Financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is measured:

**(A)** mainly based on quoted prices on an active market; equity securities are valued this way;

**(B)** valued on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.).

| 30/06/2017 Statement of financial position headings and classes of instruments | Category | Total fair value on statement of financial position | Fair value | | |
|---|---|---|---|---|---|
| | | | Listed prices (A) | Internal model with observable inputs (B) | Internal model with unobservable inputs |
| **ASSETS** | | | | | |
| Listed equity interests | AFS | 68,954 | 68,954 | - | - |
| Other equity interests | AFS | 5,941 | - | 5,941 | - |
| **Derivatives – assets** | | | | | |
| Hedging financial instruments | CFH | 17,005 | - | 17,005 | - |
| Speculative financial instruments | L-FVTPL | - | - | - | - |
| **Cash and cash equivalents** | **A-FVTPL** | **866,546** | **866,546** | **-** | **-** |
| **LIABILITIES** | | | | | |
| **Derivatives – liabilities** | | | | | |
| Hedging financial instruments | CFH | 2,476 | - | 2,476 | - |
| Speculative financial instruments | L-FVTPL | 2 | - | 2 | - |

| 31/12/2016 | Notes | Category [(a)] | Gross value at 31/12/2016 | Amortized cost | Fair value through equity | Fair value through profit or loss |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Other non-current assets** | 4 | | | | | |
| Listed equity interests | | AFS | 73,282 | - | 73,282 | - |
| Other equity interests | | AFS | 6,294 | - | 6,294 | - |
| Loans | | L&R | 5,031 | 5,031 | - | - |
| Other financial assets | | L&R/AHM [(b)] | 58,034 | 58,034 | - | - |
| **Trade and other receivables** | 7 | **L&R** | **551,053** | **551,053** | **-** | **-** |
| **Derivatives – assets** | 8 | | | | | |
| Hedging financial instruments | | CFH | 1,764 | - | 1,764 | - |
| Hedging financial instruments [(f)] | | A-FVTPL | 56,222 | - | - | 56,222 |
| Speculative financial instruments | | A-FVTPL | - | - | - | - |
| **Other current assets** | 9 | **L&R** | **283,019** | **283,019** | **-** | **-** |
| **Cash and cash equivalents** | 10 | **A-FVTPL** | **1,286,722** | **-** | **-** | **1,286,722** |
| **LIABILITIES** | | | | | | |
| **Bank loans and other borrowings [(c) (e)]** | 16 | **AC-EIR** | **214,556** | **214,556** | **-** | **-** |
| **Other** | 16 | **AC-EIR** | **636,348** | **636,348** | **-** | **-** |
| **Finance leases** | 16 | **AC-EIR** | **113,031** | **113,031** | **-** | **-** |
| **Bond issues** | 16 | **AC-EIR** | **950,373** | **950,373** | **-** | **-** |
| **Overdrafts and other short-term borrowings [(d) (e)]** | 16 | **AC-EIR** | **659,436** | **659,436** | **-** | **-** |
| **Trade and other payables** | | **AC** | **530,391** | **530,391** | **-** | **-** |
| **Derivatives – liabilities** | 8 | | | | | |
| Hedging financial instruments | | CFH | 26,390 | - | 26,390 | - |
| Hedging financial instruments | | L-FVTPL | 78,901 | - | - | 78,901 |
| Speculative financial instruments | | L-FVTPL | 2 | - | - | 2 |
| **Other current liabilities** | 20 | **AC** | **299,462** | **299,462** | **-** | **-** |

*(a) A-FVTPL Financial assets measured at fair value through profit or loss.*
*AHM Assets held to maturity.*
*L & R Loans and receivables.*
*AFS Available-for-sale financial assets.*
*CFH Cash flow hedges.*
*L-FVTPL Financial liabilities measured at fair value through profit or loss.*
*AC Amortized cost.*
*AC-EIR Amortized cost according to the effective interest rate method.*

*(b) In the Vallourec Group, the only assets in this category are security deposits and guarantees.*

*(c) Borrowings classified within non-current liabilities maturing in more than 12 months.*

*(d) Borrowings that must be repaid within 12 months are classified as current liabilities.*

*(e) Variable rate borrowings for which interest rate swaps have been entered into are accounted for using the cash flow hedge method, Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity to the extent of their effectiveness. Otherwise, they are recognized under financial income.*

*(f) Including the Value 12, Value 13, Value 14, Value 15 and Value 16 warrants, whose fair value as at 31 December 2016 was €1,7 million.*

Financial instruments measured at fair value are classified by category on the basis of their measurement method. Fair value is measured:

**(A)** mainly based on quoted prices on an active market, equity securities are valued this way;

**(B)** valued on the basis of observable methods and data and with reference to the financial markets (yield curve, forward prices, etc.),

| 31/12/2016<br>Statement of financial position headings and classes of instruments | Category | Total fair value on statement of financial position | Fair value | | |
|---|---|---|---|---|---|
| | | | Listed prices (A) | Internal model with observable inputs (B) | Internal model with unobservable inputs |
| **ASSETS** | | | | | |
| Listed equity interests | AFS | 73,282 | 73,282 | - | - |
| Other equity interests | AFS | 6,294 | - | 6,294 | - |
| **Derivatives – assets** | | | | | |
| Hedging financial instruments | CFH | 1,764 | - | 1,764 | - |
| Speculative financial instruments | L-FVTPL | - | - | - | - |
| **Cash and cash equivalents** | **A-FVTPL** | **1,286,722** | **1,286,722** | **-** | **-** |
| **LIABILITIES** | | | | | |
| **Derivatives – liabilities** | | | | | |
| Hedging financial instruments | CFH | 105,291 | - | 105,291 | - |
| Speculative financial instruments | L-FVTPL | 2 | - | 2 | - |

## NOTE 9 Other current assets

| | Employee-related receivables and recoverable payroll taxes | Tax receivables excluding income tax | Prepaid expenses | Government, income tax | Other receivables | Total |
|---|---|---|---|---|---|---|
| **As at 31/12/2016** | **4,855** | **111,556** | **51,023** | **38,653** | **76,932** | **283,019** |
| Impact of changes in exchange rates | (190) | (5,988) | (2,300) | (3,217) | (2,604) | (14,299) |
| Provision allowances or reversals | - | - | - | - | 1,329 | 1,329 |
| Other changes | 5,595 | (999) | 1,942 | (7,986) | (21,208) | (22,656) |
| **AS AT 30/06/2017** | **10,260** | **104,569** | **50,665** | **27,450** | **54,449** | **247,393** |

## NOTE 10 Cash and cash equivalents

| | Investment securities (gross) | Cash and cash equivalents | Total |
|---|---|---|---|
| **Au 31/12/2016** | **950,476** | **336,246** | **1,286,722** |
| Impact of changes in exchange rates | (29,079) | (5,693) | (34,772) |
| Other changes | (255,014) | (130,390) | (385,404) |
| **AU 30/06/2017** | **666,383** | **200,163** | **866,546** |

"Cash and cash equivalents" comprises cash in bank current accounts and investment securities (shares in short-term cash UCITS and mutual and investment funds) that are immediately available (not pledged), risk-free and have a low volatility level.

## NOTE 11 Assets held for sale and discontinued operations

| Net values | 31/12/2016 | 30/06/2017 |
|---|---|---|
| Assets held for sale and discontinued operations | 46,327 | - |
| Liabilities held for sale and discontinued operations | (43,211) | - |
| **NET CARRYING AMOUNT OF ASSETS / LIABILITIES HELD FOR SALE** | **3,116** | **-** |

These assets and liabilities are as follows:

| | 31/12/2016 | 30/06/2017 |
|---|---|---|
| Non-current assets | 19,505 | - |
| Current assets | 26,822 | - |
| Non-current liabilities | (3,232) | - |
| Current liabilities | (39,979) | - |
| Impairment of assets | 0 | - |
| **NET CARRYING AMOUNT OF ASSETS / LIABILITIES HELD FOR SALE** | **3,116** | **-** |

On 26 January 2017, Vallourec and Asco Industries completed the acquisition by the latter of a majority interest in the Saint-Saulve steel mill, recorded in assets held for sale as at 31 december 2016.

SAS Ascoval is 60% owned by Asco Industries and 40% by Vallourec Tubes France, and is consolidated using the equity method.

## NOTE 12 Change in operating working capital requirements

| Gross values | 31/12/2016 | Translation difference | Change | Reclassifications and other | 30/06/2017 |
|---|---|---|---|---|---|
| Inventories | 1,240,512 | (65,704) | 209,033 | (5,520) | 1,378,321 |
| Trade receivables | 579,168 | (30,449) | 79,514 | (887) | 627,346 |
| Trade payables | (530,391) | 27,776 | (93,135) | 5,377 | (590,373) |
| Other receivables and payables | 82,677 | (6,352) | (108,093) | (5,739) | (37,507) |
| **Gross working capital (1)** | **1,371,967** | **(74,729)** | **87,319** | **(6,769)** | **1,377,788** |
| **Impact of hedging instruments (2)** | | | **17,022** | | |
| **TOTAL (1) + (2)** | | | **104,341** | | |
| Change in working capital in the statement of cash flows | | | (104,341) | | |

| Gross values | 31/12/2015 | Translation difference | Change | Reclassifications and other | 30/06/2016 |
|---|---|---|---|---|---|
| Inventories | 1,234,047 | 26,047 | (67,871) | (3,533) | 1,188,690 |
| Trade receivables | 599,719 | 18,608 | 17,784 | 804 | 636,915 |
| Trade payables | (523,476) | 106 | 48,939 | (7,439) | (481,870) |
| Other receivables and payables | 7,306 | 15,036 | 8,224 | 3,367 | 33,933 |
| **Gross working capital (1)** | **1,317,596** | **59,797** | **7,076** | **(6,801)** | **1,377,668** |
| **Impact of hedging instruments (2)** | | | **34,297** | | |
| **TOTAL (1) + (2)** | | | **41,373** | | |
| Change in working capital in the statement of cash flows | | | (41,373) | | |

## NOTE 13 Equity

### Capital

Vallourec's issued capital is comprised of 451,238,005 ordinary shares with a nominal value of €2 per share, fully paid-up.

### Reserves, financial instruments

Under IAS 39 Financial Instruments, postings to this reserve account are made for two types of transaction:

- effective currency hedges assigned to the order book and commercial tenders. Changes in the intrinsic values at the year-end are recognized in equity;
- variable rate borrowings for which interest rate swaps (fixed rate) have been contracted. These are accounted for in accordance with the cash flow hedge method. Changes in the fair value of the swap contracts, linked to interest rate movements, are recognized in equity.

### Foreign currency translation reserve

This reserve arises as a result of the translation of the equity of subsidiaries outside the euro zone. The change in the reserve corresponds to fluctuations in exchange rates used to translate the equity and net profit of these subsidiaries. Components of the reserve are reversed to income only in the case of a partial or total disposal and loss of control of the foreign entity.

| | USD | GBP | BRL | CNY | Other | Total |
|---|---|---|---|---|---|---|
| As at 31/12/2016 | 343,878 | (11,583) | (529,697) | 34,276 | (13,448) | (176,574) |
| Change | (96,257) | (192) | (143,562) | (15,205) | (4,007) | (259,223) |
| **AS AT 30/06/2017** | **247,621** | **(11,775)** | **(673,259)** | **19,071** | **(17,455)** | **(435,797)** |

#### Main exchange rates used (euro/currency): translation of statement of financial position items (reporting date rate) and income statement items (average rate)

| | USD | GBP | BRL | CNY |
|---|---|---|---|---|
| 31/12/2016 | | | | |
| Average rate | 1.11 | 0.82 | 3.86 | 7.35 |
| Reporting date rate | 1.05 | 0.86 | 3.43 | 7.32 |
| H1 2017 | | | | |
| Average rate | 1.08 | 0.86 | 3.44 | 7.44 |
| Reporting date rate | 1.14 | 0.88 | 3.76 | 7.74 |

## NOTE 14 Earnings per share

Basic earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the same period.

Diluted earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the same period, adjusted for the dilution effect of options.

Details of the earnings and numbers of shares used to calculate basic and diluted earnings per share are presented below:

| Earnings per share | H1 2016 | H1 2017 |
|---|---|---|
| **Net income (loss) attributable to ordinary shareholders for basic earnings per share** | **(415,338)** | **(253,695)** |
| Weighted average number of ordinary shares for basic earnings per share | 171,872,013 | 451,238,005 |
| Weighted average number of treasury shares for basic earnings per share | (2,029,673) | (2,760,238) |
| Weighted average number of shares for earnings per share | 169,842,340 | 448,477,767 |
| **EARNINGS PER SHARE** *(in €)* | **(2.4)** | **(0.6)** |
| Dilution effect – share purchase and subscription options and performance shares | - | 924,555 |
| Weighted average number of ordinary shares for diluted earnings per share | 169,842,340 | 449,402,322 |
| **DILUTED EARNINGS PER SHARE** *(in €)* | **(2.4)** | **(0.6)** |

| Dividends paid during the year | H1 2016 | H1 2017 |
|---|---|---|
| › for the previous fiscal year (in €) | - | - |

## NOTE 15 Non-controlling interests

| | Reserves | Translation difference | Net income | Total |
|---|---|---|---|---|
| As at 31/12/2016 | 450,892 | 93,070 | (49,530) | 494,432 |
| **AS AT 30/06/2017** | **400,266** | **53,926** | **(21,418)** | **432,774** |

## NOTE 16 Bank loans and other borrowings

### Liquidity Risk

The Group's financial resources are composed of bank financing and market financing.

The majority of long-term and medium-term bank financing has been put in place in Europe through Vallourec and its sub-holding company Vallourec Tubes and, to a lesser extent, via the subsidiaries in Brazil and the United States (see below).

Market financing is arranged exclusively by Vallourec.

#### In Europe

In February 2014, Vallourec took out a multi-currency revolving credit facility for an amount of €1.1 billion, maturing in February 2019, plus two one-year extension options. In addition to the first one-year extension obtained for €1.078 billion, the second extension was granted in July 2016 for the sum of €989 million and maturity rescheduled for 2021. This credit line is available for the Group's general funding purposes. As at 30 June 2017 €308 million of this line has been drawn.

In June 2015, Vallourec agreed a bilateral line of €90 million until February 2019 with two one-year extension options, which were granted in July 2016. As at 30 June 2017 €24 million of this line has been drawn.

In September 2015, Vallourec took out a revolving credit facility for €400 million, maturing in July 2019, with a one-year extension option which was granted in July 2016 for the full amount, and maturity rescheduled for 2020. This replaces four medium-term bilateral lines of €100 million each granted to Vallourec Tubes and maturing in July 2017. As at 30 June 2017 this line had not been drawn.

In May 2016, Vallourec took out a revolving credit line for €450 million maturing in February 2020. Au 30 juin 2017, €60 million of this line has been drawn.

In addition to the financing put in place by Vallourec, Vallourec Tubes has available two medium-term bilateral lines of €100 million each, maturing in July 2017. As at 30 June 2017, these two lines had been fully drawn.

Each of these bank facilities requires Vallourec to maintain its consolidated net debt-to-equity ratio at no more than 75%, calculated as at 31 December 2017 and then, less or equal to 100% for 31 december 2018, 2019 and 2020 (amendment signed on 17 March 2017). A change in control of Vallourec could require the repayment of some or all of the debt, which would be decided separately by each bank. It is also stipulated that the entire debt will be immediately due and payable if the Group defaults on one of its debt obligations (cross default), or in case of a major event with consequences for the Group's business or financial position and its ability to repay its debt.

In addition to bank financing, the Group has sought to diversify its funding sources by using market financing. For example, Vallourec launched a commercial paper program on 12 October 2011 to meet its short-term needs. The program has a €1 billion ceiling.

At 30 June 2017, Vallourec had an outstanding debt of €434 million for maturities of up to one year. This commercial paper program is rated B by Standard & Poor's.

On 7 December 2011, Vallourec issued a €650 million bond maturing in February 2017, with a fixed annual coupon of 4.25%. This bond was repaid on 14 February 2017. In August 2012, Vallourec also issued two long-term private bonds totaling €455 million. The amounts and terms of these two private bond issues are €400 million for seven years with an annual coupon of 3.25% for one, and €55 million for 15 years with an annual coupon of 4.125%.

On 30 September 2014, Vallourec issued a €500 million bond, maturing in September 2024, with a fixed annual coupon of 2.25%.

The market values of these fixed-rate bonds issues are €413 million, €61.5 million and €522.1 million, respectively.

These bond issues were intended to diversify and increase the amount and extend the maturity of the financial resources available to the Group.

These bond issues specifically include a change-of-control clause that would trigger the mandatory prepayment of the bonds at the request of each bondholder in the event of a change of control of the Company (in favor of a person or a group of people acting in concert) leading to a downgrade of Vallourec's fi ancial rating.

In addition, these bonds may be subject to a request for prepayment should any of the common default scenarios for this type of transaction arise. Early redemption may also be requested in some cases by either the Company or the bondholder, particularly in respect of a change in Vallourec's position or tax status.

As at 30 June 2017, the Group complied with its covenants and the terms and conditions for obtaining and maintaining all of the above facilities. Together, the above resources were sufficient to cover the Group's cash requirements.

## In Brazil

In December 2009, Vallourec Soluções Tubulares do Brasil (formerly VSB), contracted a loan of BRL 448.8 million from BNDES (Banco Nacional de Desenvolvimento Econômico e Social). This fixed-rate loan at 4.5% is denominated in Brazilian reals and has a term of eight years. It is amortizable from 15 February 2012. As at 30 June 2017, BRL 31 million of this loan had been drawn.

In 2010, this same company in Brazil concluded a finance lease with a nominal value of BRL 570 million relating to equipment needed to operate the plant at Jeceaba. As at 30 June 2017, the residual amount outstanding on this finance lease was BRL 304.8 million.

## In the United States

The Group's US companies have a set of bilateral bank lines that were renewed in 2016 for a total of USD 80 million. The amount used as at 30 June 2017 totaled USD 80 million. These under 12 month facilities include clauses relating to the debt of each of the companies involved and a change of control clause.

In 2013, Vallourec Star set up a finance lease with a nominal value of USD 64.3 million and a final maturity of five years. As at 30 June 2017, the residual amount outstanding on this finance lease was USD 31.9 million.

## Financial liabilities – non-current liabilities

| | Bank borrowings | Finance leases | Bond issue | Other financial liabilities | Total |
|---|---|---|---|---|---|
| As at 31/12/2016 | 56,394 | 113,031 | 950,373 | 850 | 1,120,648 |
| New debt | - | - | - | - | - |
| Repayments | (3,891) | (5,489) | - | (3) | (9,383) |
| Reclassification in current/non-current | (13,480) | (25,731) | - | - | (39,211) |
| Impact of changes in exchange rates | (3,478) | (7,593) | - | (21) | (11,092) |
| Other changes | - | - | 442 | 55 | 497 |
| **AS AT 30/06/2017** | **35,545** | **74,218** | **950,815** | **881** | **1,061,459** |

## Financial liabilities – current liabilities

| | Bank overdrafts | Accrued interest on bank overdrafts | Bank borrowings (< 1 year) | Accrued interest on bank borrowings | Other financial liabilities (< 1 year) | Total |
|---|---|---|---|---|---|---|
| As at 31/12/2016 | 9,608 | 649,828 | 158,162 | 33,443 | 602,055 | 1,453,096 |
| Impact of changes in exchange rates | (360) | - | (9,061) | (10) | (22,423) | (31,854) |
| Reclassification in current/non-current | - | - | 13,480 | - | 25,731 | 39,211 |
| Other changes | (237) | (649,828) | 540,060 | (2,953) | 70,940 | (42,018) |
| **AS AT 30/06/2017** | **9,011** | **-** | **702,641** | **30,480** | **676,303** | **1,418,435** |

## Debt by currency

| | USD | EUR | BRL | Other | Total |
|---|---|---|---|---|---|
| As at 31/12/2016 – in thousands of currency unit | 448,869 | 1,948,186 | 604,012 | n/a | n/a |
| As at 31/12/2016 – in € thousands | 425,832 | 1,948,186 | 176,071 | 23,655 | 2,573,744 |
| **As at 30/06/2017 – in thousands of currency unit** | **432,191** | **1,925,864** | **560,887** | **n/a** | **n/a** |
| **AS AT 30/06/2017 – IN € THOUSANDS** | **378,716** | **1,925,864** | **149,172** | **26,142** | **2,479,894** |

## Breakdown by maturity of non-current loans and other financial liabilities (> 1 year)

| | > 1 year | > 2 years | > 3 years | > 4 years | 5 years or more | Total |
|---|---|---|---|---|---|---|
| As at 31/12/2016 | 53,996 | 421,612 | 23,023 | 14,663 | 607,354 | 1,120,648 |
| Finance leases | 9,651 | 9,676 | 9,706 | 9,738 | 35,445 | 74,216 |
| Other non-current financial liabilities | 4,938 | 403,018 | 2,725 | 2,676 | 573,886 | 987,243 |
| **AS AT 30/06/2017** | **14,589** | **412,694** | **12,431** | **12,414** | **609,331** | **1,061,459** |

## Breakdown by maturity of current loans and other financial liabilities

| | < 3 months | > 3 months and < 1 year | Total |
|---|---|---|---|
| Non-convertible bond issues | 649,828 | - | 649,828 |
| Bank borrowings | 18,747 | 139,415 | 158,162 |
| Other borrowings | 286,053 | 297,715 | 583,768 |
| Finance lease liabilities | 1,924 | 16,363 | 18,287 |
| Accrued interest on borrowings | 24,463 | 8,980 | 33,443 |
| Bank overdrafts (negative cash and cash equivalents) | 9,606 | 2 | 9,608 |
| **As at 31/12/2016** | **990,621** | **462,475** | **1,453,096** |
| Bond | - | - | - |
| Bank borrowings | 623,579 | 79,060 | 702,639 |
| Other borrowings | 419,842 | 218,638 | 638,480 |
| Finance lease liabilities | 2,412 | 35,338 | 37,750 |
| Accrued interest on borrowings | 30,480 | - | 30,480 |
| Bank overdrafts (negative cash and cash equivalents) | 8,762 | 324 | 9,086 |
| **AS AT 30/06/2017** | **1,085,075** | **333,360** | **1,418,435** |

## Debt by Interest Rate

The following table groups the current and non-current portions of bank and other financial liabilities.

| | Rate < 3% | Rate 3 to 6% | Rate 6 to 10% | Rate < 10% | Total |
|---|---|---|---|---|---|
| Fixed rate on date granted | 814,145 | 1,481,302 | 12,521 | 18,316 | 2,326,284 |
| Variable rate on date granted swapped to fixed rate | - | - | - | - | - |
| Fixed rate | 814,145 | 1,481,302 | 12,521 | 18,316 | 2,326,284 |
| Variable rate | 2,256 | 127,123 | 116,051 | 2,030 | 247,460 |
| **As at 31/12/2016** | **816,401** | **1,608,425** | **128,572** | **20,346** | **2,573,744** |
| Fixed rate on date granted | 967,884 | 1,066,596 | 25,126 | - | 2,059,606 |
| Variable rate on date granted swapped to fixed rate | - | - | - | - | - |
| Fixed rate | 967,884 | 1,066,596 | 25,126 | - | 2,059,606 |
| Variable rate | 200,733 | 98,338 | 4,677 | 116,540 | 420,288 |
| **AS AT 30/06/2017** | **1,168,617** | **1,164,934** | **29,803** | **116,540** | **2,479,894** |

Debt contracted at a rate higher than 6% relates to companies based in Brazil.

Debt at a fixed rate of less than 3% on the date granted relates mainly to commercial paper and to the €500 million bond issue.

## NOTE 17 Provisions

| | Provisions for environmental risks | Reorganization measures | Tax risks (income and other taxes, inspections, etc.) | Others | Total |
|---|---|---|---|---|---|
| **As at 31/12/2016** | **15,380** | **22,183** | **45,769** | **12,356** | **95,688** |
| Provisions for the period | 351 | - | 1,047 | 4,540 | 5,938 |
| Provisions used | - | (2,597) | (940) | (3,912) | (7,449) |
| Impact of changes in exchange rates | (1,370) | (141) | (4,053) | (736) | (6,300) |
| Other | - | (47) | 393 | 3,647 | 3,993 |
| **AS AT 30/06/2017** | **14,361** | **19,398** | **42,216** | **15,895** | **91,870** |

### Provisions for environmental risks

The environment provision covers the cost of treating industrial land, as well as the clean-up costs for the mine in Brazil: amounts are provided as and when minerals are extracted, based on the volumes extracted.

### Provision for tax risks

This provision mainly relates to risks in connection with tax disputes in Brazil, some of which are covered by security deposits (see Note 4).

| Current liabilities | Disputes and commercial commitments | Unfilled orders – losses on completion | Reorganization measures | Tax risks (income and other taxes, inspections, etc.) | Other | Total |
|---|---|---|---|---|---|---|
| **As at 31/12/2016** | **49,209** | **108,310** | **86,754** | **295** | **35,728** | **280,296** |
| Provisions for the period | 5,940 | 39,141 | 290 | - | 5,299 | 50,670 |
| Provisions used | (16,878) | (61,411) | (12,616) | (50) | (5,817) | (96,772) |
| Other reversals | (10,671) | - | (12,400) | - | - | (23,071) |
| Impact of changes in exchange rates | (1,503) | (4,893) | (141) | (3) | (2,940) | (9,480) |
| Other | 1 | (9,301) | (106) | - | 20 | (9,386) |
| **AS AT 30/06/2017** | **26,098** | **71,846** | **61,781** | **242** | **32,290** | **192,257** |

### Provisions for disputes, commercial commitments and losses on unfilled orders

Provisions are booked with regard to disputes if the Group has an obligation to a third party at the reporting date. They are determined based on the best estimate of the expense likely to be required to settle the obligation.

### Provisions for adaptation and restructuring measures

The provisions for adaptation and restructuring measures cover the estimated costs of the plans announced in 2015 and 2016, mainly concerning Europe. They include the following costs:

- redundancy and end-of-contract compensation paid to personnel no longer required by the Company;
- costs of maintaining personnel after the shutdown of operations and until the site closure (compensation for unworked notice periods, for example);
- contract termination compensation paid to suppliers;
- outstanding rents payable after the shutdown of operations until the end of the rental agreement.

The valuation of the provision was updated on 30 June 2017 with the known items for the achievement and implementation of the employment protection plan in France.

### Other current provisions

This item comprises various provisions with regard to customer discounts, late-payment penalties and other risks identified at the reporting date, with none being individually material.

## Contingent liabilities

In connection with investigations by Brazilian authorities relating to procedures involving Petrobras and targeting its tube suppliers, V&M do Brasil S.A. was cited in the decision of a federal judge dated 19 May 2016. This decision provided for authorities to visit the facilities of certain tube suppliers for purposes of collecting evidence. V&M do Brasil S.A. was not one of the suppliers that was visited. The company is offering its cooperation with judicial authorities in connection with the pursuit of these investigations. No provision has been constituted in relation to this matter.

For 2016 and 2017, actual annual greenhouse gas emissions were lower than the allowance granted by the French government, so no provisions were booked in this regard.

# NOTE 18 Other long-term liabilities

| | |
|---|---|
| **As at 31/12/2016** | **25,712** |
| Impact of changes in exchange rates | (1,533) |
| Other changes | (252) |
| **AS AT 30/06/2017** | **23,927** |

Other long-term liabilities are primarily composed of other non-operating liabilities of more than one year.

# NOTE 19 Employee benefit commitments

| | Germany | France | United Kingdom | Other | Total |
|---|---|---|---|---|---|
| **As at 30/06/2017** | | | | | |
| **Present value of the obligation** | **315,860** | **39,945** | **135,847** | **93,239** | **584,891** |
| Retirement benefits | 256,546 | 38,063 | 135,847 | 71,233 | 501,689 |
| Early retirement commitments | 42,870 | - | - | - | 42,870 |
| Long-service awards and medical benefits | 16,444 | 1,882 | - | 22,006 | 40,332 |
| Fair value of plan assets | (172,567) | (8,084) | (146,053) | (33,456) | (360,160) |
| **NET LIABILITY/(ASSET)** | **143,293** | **31,861** | **(10,206)** | **59,783** | **224,731** |

## Change in Net Liability

| | Germany | France | United Kingdom | Other | Total |
|---|---|---|---|---|---|
| **Net Liability/(Asset) at 31/12/2016** | **148,857** | **30,229** | **(13,476)** | **61,153** | **226,763** |
| Expense for the period | 9,986 | 954 | 1,297 | 4,157 | 16,394 |
| Amount recognized in Other comprehensive income – remeasurement | (1,496) | (193) | 3,702 | 800 | 2,813 |
| Benefits or contributions to funds | (14,054) | (207) | (2,020) | (1,398) | (17,679) |
| Impact of changes in exchange rates | - | - | 291 | (5,530) | (5,239) |
| Changes in scope and other | - | 1,078 | - | 601 | 1,679 |
| **NET LIABILITY/(ASSET) AT 30/06/2017** | **143,293** | **31,861** | **(10,206)** | **59,783** | **224,731** |

At 30 June 2017, the main commitments were reviewed to take into account the changes in the discount rate based on sensitivity analyses performed at 31 December 2016.

The significant hedge funds were valued at their fair value as at 30 June 2017.

| Main actuarial assumptions | Germany | France | United Kingdom | Other |
|---|---|---|---|---|
| **31/12/2016** | | | | |
| Discount rate | 1.55% | 1.55% | 2.70% | from 4.15% to 10.39% |
| Actual return on plan assets | 1.55% | 1.55% | 2.70% | from 4.15% to 10.39% |
| **30/06/2017** | | | | |
| Discount rate | 1.60% | 1.60% | 2.40% | from 3.9% to 10.23% |
| Actual return on plan assets | 1.60% | 1.60% | 2.40% | from 3.9% to 10.23% |

## Expenses for the half year

Expenses incurred during the year include the additional rights acquired for an additional year of service, the change in existing rights at the beginning of the year due to discounting, past service costs recorded in the period, the actual return on plan assets, the effects of plan reductions or liquidations and the amortization of actuarial gains and losses for liabilities other than pensions. The portion relating to the discounting of rights is recognized in financial income (loss) and the return on plan assets is recorded in investment income. These expenses are broken down as follows:

| | Germany | France | United Kingdom | Other | Total |
|---|---|---|---|---|---|
| **As at 30/06/2017** | | | | | |
| Current service cost | 4,834 | 925 | 1,501 | 1,821 | 9,081 |
| Interest expense | 2,358 | 319 | 1,776 | 3,025 | 7,478 |
| Actual return on plan assets | (1,303) | (62) | (1,980) | (738) | (4,083) |
| Actuarial losses/(gains) generated during the year | (84) | (1) | - | 49 | (36) |
| Impact of any reduction or liquidation [a] | 4,181 | (227) | - | - | 3,954 |
| **NET CARRYING AMOUNT** | **9,986** | **954** | **1,297** | **4,157** | **16,394** |

*(a) Primarily consists of the restructurings in Germany (increase in the early retirement plan).*

### Other employee benefits (options and performance shares)

SHARE SUBSCRIPTION PLANS

#### CHARACTERISTICS OF THE PLANS

With regard to the characteristics of the plans agreed before 31 December 2016, reference is made to the Group's consolidated financial statements for the year ended 31 December 2016.

For all of these plans, the change in the number of unexpired options is as follows:

| *In number of options* | |
|---|---|
| **Options outstanding as at 1 January** | **5,002,867** |
| Options exercised | - |
| Options lapsed | - |
| Options canceled [a] | (863,868) |
| Options distributed | 292,500 |
| **OPTIONS OUTSTANDING AS AT 30 JUNE 2017** | **4,431,499** |
| Options available for exercise | 1,337,983 |

*(a) The reported figures correspond to the theoretical number of shares originally allocated with a performance factor of 1 for plans that were vesting, and to the actual number of shares allocated for plans that had matured.*

### MEASUREMENT OF NEW PLAN INTRODUCED DURING THE HALF-YEAR [(a)]

| | 2017 Plan |
|---|---|
| Share price at allocation date | €5.82 |
| Volatility [(b)] | 31.00% |
| Risk-free rate [(c)] | 0.50% |
| Exercise price | €6.02 |
| Dividend rate [(d)] | 3.00% |
| Fair value of the option [(e)] | €1.13 |

*(a) The binomial model of projecting share prices has been used to measure the fair value of the options granted.*

*(b) Volatility corresponds to historical volatility observed over a period corresponding to the duration of the plans.*

*(c) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).*

*(d) The expected dividend rates have been determined on the basis of analysts' expectations and the Group's dividend policy.*

*(e) The fair value for the Management Board and the Operational Committee is €1,13 for the 2017 plan.*

## PERFORMANCE SHARE ALLOCATION PLANS

### CHARACTERISTICS OF THE PLANS

With regard to the characteristics of the plans agreed before 31 December 2016, reference is made to the Group's consolidated financial statements for the year ended 31 December 2016.

For all of these plans, the change in the number of shares being vested is as follows:

| *In number of shares* | |
|---|---|
| **Number of shares being vested as at 1 January** | **2,199,312** |
| Shares delivered | (258,915) |
| Shares canceled [(a)] | (472,499) |
| Shares allocated | 820,275 |
| **NUMBER OF SHARES BEING VESTED AS AT 30 JUNE 2017** | **2,288,173** |

*(a) The reported figures correspond to the theoretical number of shares originally allocated, with a performance factor of 1 for plans that were vesting, and to the actual number of shares allocated for plans that had matured.*

The characteristics of the plans introduced since 1 January 2017 are as follows[(a)]:

| | 2017 Plan |
|---|---|
| Share price at allocation date | €5.82 |
| Risk-free rate [(b)] | -0.12% (France), -0.32% (international) |
| Dividend rate [(c)] | 3.00% |
| Fair value of the share | €4.84 (French residents) or €5.15 (non-French residents) |

*(a) The binomial model of projecting share prices has been used to determine the fair value of the shares allocated. The employee benefi t corresponds to the fair value of the shares allocated, taking into account the impossibility of receiving dividends during the vesting period and the cost to the employee of the nontransferability of shares during the holding period.*

*(b) The risk-free rate corresponds to the zero-coupon rate (source: French Institute of Actuaries – Institut des Actuaires).*

*(c) The expected dividend rates were determined based on analysts' expectations (external information) and the Group's dividend policy.*

## NOTE 20 Other current liabilities

| | Social security liabilities | Tax liabilities | Liabilities associated with the acquisition of assets | Deffered income | Other current liabilities | Total |
|---|---|---|---|---|---|---|
| **As at 31/12/2016** | **197,382** | **29,897** | **20,494** | **1,284** | **50,405** | **299,462** |
| Impact of changes in exchange rates | (6,856) | (1,007) | (648) | (4) | (3,225) | (11,740) |
| Other changes | 36,657 | 8,616 | (10,241) | 2,373 | 7,090 | 44,495 |
| **AS AT 30/06/2017** | **227,183** | **37,506** | **9,605** | **3,653** | **54,270** | **332,217** |

## NOTE 21 Information on related parties

| | Sales to related parties | Purchases from related parties | Related party receivables | Related party payables |
|---|---|---|---|---|
| **As at 30/06/2017** | | | | |
| HKM | 219 | 145,837 | 177 | 76,755 |
| Ascoval | 8,248 | 48,366 | 8,283 | 12,415 |

## NOTE 22 Contingent liabilities and commitments

| Off-statement of financial position commitments received (excluding financial instruments) | 31/12/2016 | 30/06/2017 |
|---|---|---|
| Firm non-current assets orders | 12,203 | 739 |
| Guarantees and commitments received | 99,255 | 79,540 |
| Other commitments received | 14,697 | 13,234 |
| **TOTAL** | **126,155** | **93,513** |
| **Off-statement of financial position commitments given (excluding financial instruments)** | **657,324** | **577,692** |

## Commitments given by maturity

| | 30/06/2017 | < 1 year | > 1 year | > 5 years |
|---|---|---|---|---|
| **Statement of financial position** | | | | |
| Long-term financial liabilities | 2,479,894 | 1,418,435 | 452,128 | 609,331 |
| **Off-statement of financial position** | | | | |
| Market guarantees and letters of credit given | 92,127 | 64,749 | 27,378 | - |
| Other securities, mortgages and pledges given | 124,453 | - | 2,057 | 122,396 |
| Long-term lease | 244,844 | 16,699 | 170,890 | 57,255 |
| Firm asset orders given | 739 | 739 | - | - |
| Other obligations | 104,064 | 72,252 | 31,812 | - |
| **TOTAL** | **566,227** | **154,439** | **232,137** | **179,651** |

| | 31/12/2016 | < 1 year | > 1 year | > 5 years |
|---|---|---|---|---|
| **Statement of finantial position** | | | | |
| Long-term financial liabilities | 2,573,744 | 1,453,096 | 513,294 | 607,354 |
| **Off-statement of financial position** | | | | |
| Market guarantees and letters of credit given | 123,351 | 57,247 | 66,104 | - |
| Other securities, mortgages and pledges given | 136,688 | - | 2,255 | 134,433 |
| Long-term lease | 269,712 | 23,203 | 190,393 | 56,116 |
| Firm asset orders given | 12,203 | 12,203 | - | - |
| Other obligations | 115,370 | 45,923 | 69,447 | - |
| **TOTAL** | **657,324** | **138,576** | **328,199** | **190,549** |

The main exchange rates used for income statement items are set out in Note 13.

Income statement items are translated at the average rate.

## NOTE 23 Revenue

| | H1 2016 | H1 2017 |
|---|---|---|
| Europe | 307,312 | 280,473 |
| North America (NAFTA) | 237,943 | 414,211 |
| South America | 216,604 | 314,537 |
| Asia | 403,672 | 557,768 |
| Rest of the world | 268,192 | 148,600 |
| **TOTAL** | **1,433,723** | **1,715,589** |

If the changes in scope occurring during fiscal year 2016 had taken effect on 1 January 2016, revenue for H1 2016 would have stood at €1,602 million, compared to €1,434 million.

## NOTE 24 Cost of sales

| | H1 2016 | H1 2017 |
|---|---|---|
| Direct cost of sales | (75,643) | (98,525) |
| Cost of raw materials consumed | (472,451) | (597,754) |
| Labor costs | (381,625) | (423,413) |
| Other manufacturing costs | (408,479) | (468,770) |
| Change in non-raw material inventories | 26,017 | 86,147 |
| **TOTAL** | **(1,312,181)** | **(1,502,315)** |
| Depreciation and amortization | (140,104) | (150,614) |
| **TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)** | **(1,452,285)** | **(1,652,929)** |

## NOTE 25 Sales, general and administrative costs

| | H1 2016 | H1 2017 |
|---|---|---|
| Research and Development costs | (29,187) | (26,429) |
| Sales and marketing costs | (44,036) | (40,786) |
| General and administrative costs | (151,533) | (154,091) |
| **TOTAL** | **(224,756)** | **(221,306)** |
| Depreciation and amortization | (21,594) | (22,680) |
| **TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)** | **(246,350)** | **(243,986)** |

## Personnel expenses and average headcount of consolidated companies

| Personal expenses | H1 2016 | H1 2017 |
|---|---|---|
| Wages and salaries | (380,986) | (421,786) |
| Employee profit-sharing | (9,207) | (12,579) |
| Expenses related to share subscription and share purchase options and performance shares | (652) | (1,632) |
| Social security costs | (115,623) | (106,617) |
| **TOTAL** | **(506,468)** | **(542,614)** |

| Closing headcount of consolidated companies | 31/12/2016 | H1 2016 | H1 2017 |
|---|---|---|---|
| Managers | 3,299 | 3,192 | 3,177 |
| Technical and supervisory staff | 3,107 | 3,099 | 3,076 |
| Production staff | 12,836 | 11,395 | 12,756 |
| **TOTAL** | **19,242** | **17,686** | **19,009** |

## NOTE 26 Other

| | H1 2016 | H1 2017 |
|---|---|---|
| Employee profit-sharing and bonuses | (9,716) | (14,601) |
| Fees for concessions and patents | 10,902 | 11,895 |
| Other income and expenses | (2,429) | (7,562) |
| **TOTAL** | **(1,243)** | **(10,268)** |

| Provision allowances, net of reversals | H1 2016 | H1 2017 |
|---|---|---|
| Provision allowances net of reversals included in EBITDA amounted to | (1,902) | 22,269 |

## NOTE 27 Accumulated depreciation and amortization

| | H1 2016 | H1 2017 |
|---|---|---|
| **By function** | | |
| Depreciation of industrial assets | (140,104) | (150,614) |
| Depreciation and amortization – Research and Development | (5,100) | (5,431) |
| Depreciation and amortization – Sales and Marketing Department contracts | (5,542) | (5,843) |
| Depreciation and amortization – General and administrative expenses | (10,952) | (11,406) |
| **TOTAL** | **(161,698)** | **(173,294)** |
| **By type** | | |
| Net amortization of intangible assets (see Note 1) | (16,295) | (14,528) |
| Net depreciation of property, plant and equipment (see Note 2.1) | (141,787) | (155,689) |
| Net depreciation and amortization of biological assets | (3,616) | (3,077) |
| **TOTAL** | **(161,698)** | **(173,294)** |

## NOTE 28 Impairment of assets and goodwill, asset disposals, restructuring costs and non-recurring items

| | H1 2016 | H1 2017 |
|---|---|---|
| Reorganization measures (net of expenses and provisions described in Note 17) | (87,153) | 3,598 |
| Gains and losses on disposals of non-current assets and other | 3,991 | (525) |
| **TOTAL** | **(83,162)** | **3,073** |

| | H1 2016 | H1 2017 |
|---|---|---|
| Impairment of intangible assets (see Note 1) | - | - |
| Impairment of property, plant and equipment (see Note 2.1) | (54,309) | (244) |
| Impairment of biological assets (see Note 2.2) | (3,672) | - |
| Impairment of goodwill (see Note 1) | - | - |
| Other impairment of assets (see Note 6) | (10,267) | - |
| **TOTAL** | **(68,248)** | **(244)** |

## NOTE 29 Financial income (loss)

| | H1 2016 | H1 2017 |
|---|---|---|
| **Financial income** | | |
| Income from investment securities | 10,913 | 16,393 |
| Income from disposals of investment securities | 1,564 | 116 |
| **TOTAL** | **12,477** | **16,509** |
| **Interest expenses** | **(50,459)** | **(79,617)** |
| **Other financial income and expenses** | | |
| Income from securities | 397 | 1,026 |
| Income from loans and receivables | 1,928 | 1,720 |
| Exchange (losses) and gains and changes in premiums/discounts | (20,608) | (25,432) |
| Provision allowances, net of reversals | (2,171) | (757) |
| Other financial income and expenses | (5,029) | (7,467) |
| **TOTAL** | **(25,483)** | **(30,910)** |
| **Other discounting expenses** | | |
| Interest expense pension obligations | (5,001) | (3,417) |
| Financial income from discounted assets and liabilities | 68 | (3,369) |
| **TOTAL** | **(4,933)** | **(6,786)** |
| **FINANCIAL INCOME (LOSS)** | **(68,398)** | **(100,804)** |

Financial result charges include an impairment of €13 million on NSSMC listed securities, the difference between the purchase price and the fair value at the reporting date reclassified in the income statement, in view of the permanent nature of the impairment. As at 31 December 2016, the impairment was recognized directly in equity.

## NOTE 30 Reconciliation of theoretical and actual tax expense

| Breakdown of the tax expense | H1 2016 | H1 2017 |
|---|---|---|
| Current tax expense | (3,259) | (26,396) |
| Deferred taxes | 49,648 | 44,633 |
| **NET EXPENSE** | **46,389** | **18,237** |
| Consolidated net income (loss) | (439,574) | (271,332) |
| Tax expense | 46,389 | 18,237 |
| **CONSOLIDATED NET INCOME (LOSS) BEFORE TAX** | **(485,963)** | **(289,569)** |
| Statutory tax rate of consolidating company | 34.43% | 34.43% |
| Theoretical tax | 167,317 | 99,699 |
| Impact of main tax loss carryforwards | (91,858) | (58,869) |
| Long-term impact of capital gains or losses | 1,496 | 1,205 |
| Impact of permanent differences | (17,190) | (15,505) |
| Impact of differences in tax rates | (14,038) | (6,109) |
| Other impacts | 662 | (2,184) |
| **NET EXPENSE (-) / INCOME (+)** | **46,389** | **18,237** |
| **ACTUAL TAX RATE** | **10%** | **6%** |

The rate of 6% primarily reflects the non-recognition of deferred tax assets, as detailed below:

- tax loss carryforwards for the period not recognized in the tax losses of the French tax group, in Germany, China, the UK and Indonesia.
- permanent differences from the net income attributable to non-controlling interests, the impact of performance share allocations, the impact of the impairment on NSSMC listed securities (see Note 29) and the reintegration of financial expenses.

At interim reporting dates, the tax expense is calculated for each fiscal entity of the Group by applying the effective tax rate determined for the current year to the pre-tax income for the interim period.

Differences in taxation mainly reflect the range of tax rates applied in each country (France 34.43%, Germany 31.60%, United States 35%, Brazil 34% and China 25%).

# NOTE 31 Segment information

## Operating segments

The following tables provide information on the income and results for each operating segment, as well as certain information on the assets, liabilities and investments for half year 2016 and 2017.

INFORMATION ON RESULTS AND ASSETS BY OPERATING SEGMENT

| H1 2017 | Seamless tubes | Specialty Products | Holdings & miscellaneous [(a)] | Inter-segment transactions | Total |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Sales to external customers | 1,688,454 | 27,044 | 91 | - | 1,715,589 |
| EBITDA | 579 | (1,139) | (17,740) | - | (18,300) |
| Depreciation and amortization | (165,215) | (7,619) | (559) | 99 | (173,294) |
| Impairment of assets and goodwill | (244) | - | - | - | (244) |
| Asset disposals and restructuring costs | 5,404 | - | (2,331) | - | 3,073 |
| **OPERATING INCOME (LOSS)** | **(159,476)** | **(8,758)** | **(20,630)** | **99** | **(188,765)** |
| Unallocated income/expenses | | | | | (100,804) |
| Pre-tax income | | | | | (289,569) |
| Income tax | | | | | 18,237 |
| Net income of associates | | | | | (3,781) |
| Consolidated net income | | | | | (275,113) |
| **Statement of financial position** | | | | | |
| Non-current assets | 4,600,447 | 126,494 | 3,713,110 | (4,002,700) | 4,437,351 |
| Current assets | 2,009,806 | 53,345 | 93,594 | (115,973) | 2,040,772 |
| Cash | 505,708 | 792 | 1,329,870 | (969,824) | 866,546 |
| Assets held for sale and discontinued operations | - | - | - | - | - |
| **TOTAL ASSETS** | **7,115,961** | **180,631** | **5,136,574** | **(5,088,497)** | **7,344,669** |
| **Cash flows investments** | | | | | |
| Property, plant and equipment, intangible assets and biological assets (excluding cash out flows) | 45,996 | 4,570 | - | - | 50,566 |

*(a) Vallourec and Vallourec Tubes.*

| H1 2016 | Seamless tubes | Specialty Products | Holdings & miscellaneous [a] | Inter-segment transactions | Total |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Sales to external customers | 1,374,666 | 58,835 | 222 | - | 1,433,723 |
| EBITDA | (88,135) | (6,427) | (9,360) | (535) | (104,457) |
| Depreciation and amortization | (151,377) | (9,750) | (769) | 198 | (161,698) |
| Impairment of assets and goodwill | (68,248) | - | - | - | (68,248) |
| Asset disposals and restructuring costs | (86,782) | 6,623 | 13,997 | (17,000) | (83,162) |
| **OPERATING INCOME (LOSS)** | **(394,542)** | **(9,554)** | **3,868** | **(17,337)** | **(417,565)** |
| Unallocated income/expenses | | | | | (68,398) |
| Pre-tax income | | | | | (485,963) |
| Income tax | | | | | 46,389 |
| Net income of associates | | | | | (2,440) |
| Consolidated net income | | | | | (442,014) |
| **Statement of financial position** | | | | | |
| Non-current assets | 4,600,896 | 139,564 | 4,050,652 | (4,398,518) | 4,392,594 |
| Current assets | 1,920,667 | 57,194 | 196,910 | (117,616) | 2,057,155 |
| Cash | 395,705 | 536 | 1,532,061 | (501,203) | 1,427,099 |
| **TOTAL ASSETS** | **6,917,268** | **197,294** | **5,779,623** | **(5,017,337)** | **7,876,848** |
| **Cash flows investments** | | | | | |
| Property, plant and equipment, intangible assets and biological assets (excluding cash out flows) | 52,936 | 1,947 | 43 | - | 54,926 |

*(a) Vallourec and Vallourec Tubes.*

## Geographical regions

The following tables provide information by geographical region on sales (by location of the Group's customers) and capital expenditure as well as certain information on assets (by regions where the companies operate).

| H1 2017 | Europe | North America | South America | Asia | Rest of the world | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | 280,473 | 414,211 | 314,537 | 557,768 | 148,600 | 1,715,589 |
| **Statement of financial position** | | | | | | |
| Property, plant and equipment, intangible assets and biological assets (net) | 632,006 | 1,556,216 | 1,213,601 | 417,209 | 782 | 3,819,814 |
| **Cash flows** | | | | | | |
| Property, plant and equipment, intangible assets and biological assets | 27,521 | 3,548 | 16,541 | 2,951 | 5 | 50,566 |

| H1 2016 | Europe | North America | South America | Asia | Rest of the world | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | 307,312 | 237,943 | 216,604 | 403,672 | 268,192 | 1,433,723 |
| **Statement of financial position** | | | | | | |
| Property, plant & equipment, intangible assets and biological assets (net) | 638,296 | 1,714,179 | 1,091,789 | 320,684 | 1,382 | 3,766,330 |
| **Cash flows** | | | | | | |
| Property, plant and equipment, intangible assets and biological assets | 27,850 | 6,429 | 16,481 | 4,146 | 20 | 54,926 |

## NOTE 32 Subsequent events

No significant events occurred after the reporting date.

# Statutory Auditors' review report on the half-year financial information

**For the period from January 1st to June 30, 2017**

*This is a free translation into English of the Statutory Auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English speaking readers. This report includes information relating to the specific verification of information presented in the Group's half-year activity report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the Shareholders,

In accordance with our appointment as Statutory Auditors by your Annual General Meeting and pursuant to Article L.451-1-2 III of the French Monetary and Financial Code (*Code Monétaire et Financier*), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Vallourec, for the period January 1st to June 30, 2017;
- the verification of the information contained in the half-year activity report.

These condensed half-year consolidated financial statements are the responsibility of the Management Board. They have been prepared in the economic context described in note A.2 to the condensed half-year consolidated financial statements. Our role is to express a conclusion of these financial statements based on our review.

## I – Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – the standard of the IFRSs, as adopted by the European Union with respect to interim financial information.

## II – Specific verification

We have also verified the information presented in the half-year activity report commenting the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, July 26, 2017

The Statutory Auditors

**Deloitte & Associés**
Christophe Patrier

**KPMG Audit**
Department of KPMG SA
Catherine Porta

# Notes

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A French limited liability company (société anonyme)
with Management and Supervisory Boards and issued capital of €902,476,010