2018 Interim financial report

half year ended
30 june 2018

vallourec
SMART TUBULAR SOLUTIONS

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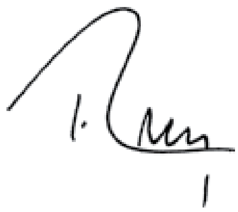
Statement by the person responsible for the interim financial report

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, 27 July 2018



Philippe Crouzet
Chairman of the Management Board

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Half-year activity report

Market environment

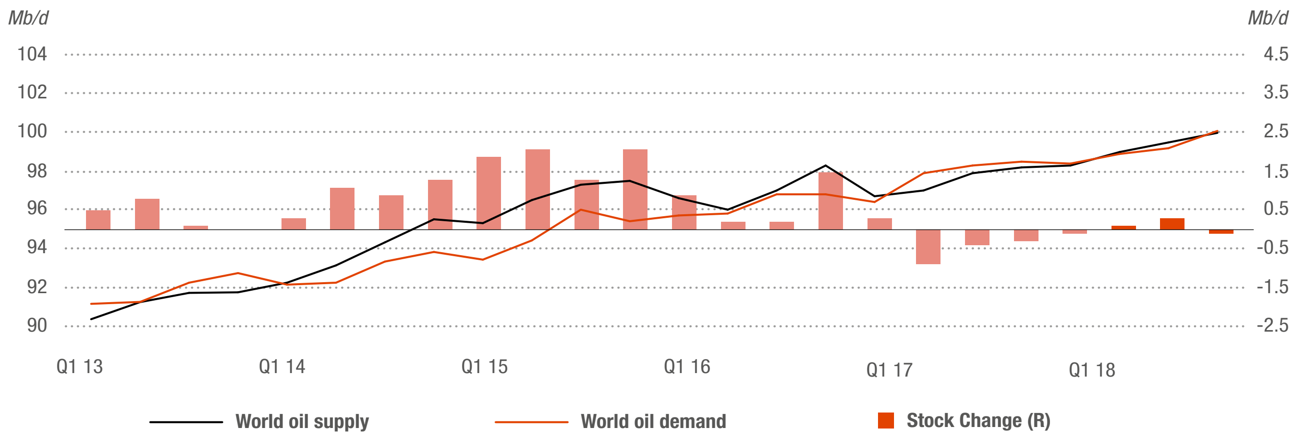
1. Oil & Gas

Global Oil & Gas market

Demand for seamless tubes depends primarily on the level of capital expenditures for development and production by participants in the Oil & Gas market, which is driven by the balance of supply and demand for oil and gas and current and expected oil and gas prices.

The graphic below shows the latest IEA's estimates for the balance of supply and demand for oil and gas through the end of 2018, expressed in millions of barrels per day (mb/d):

Oil Demand/Supply Balance until Q4 18



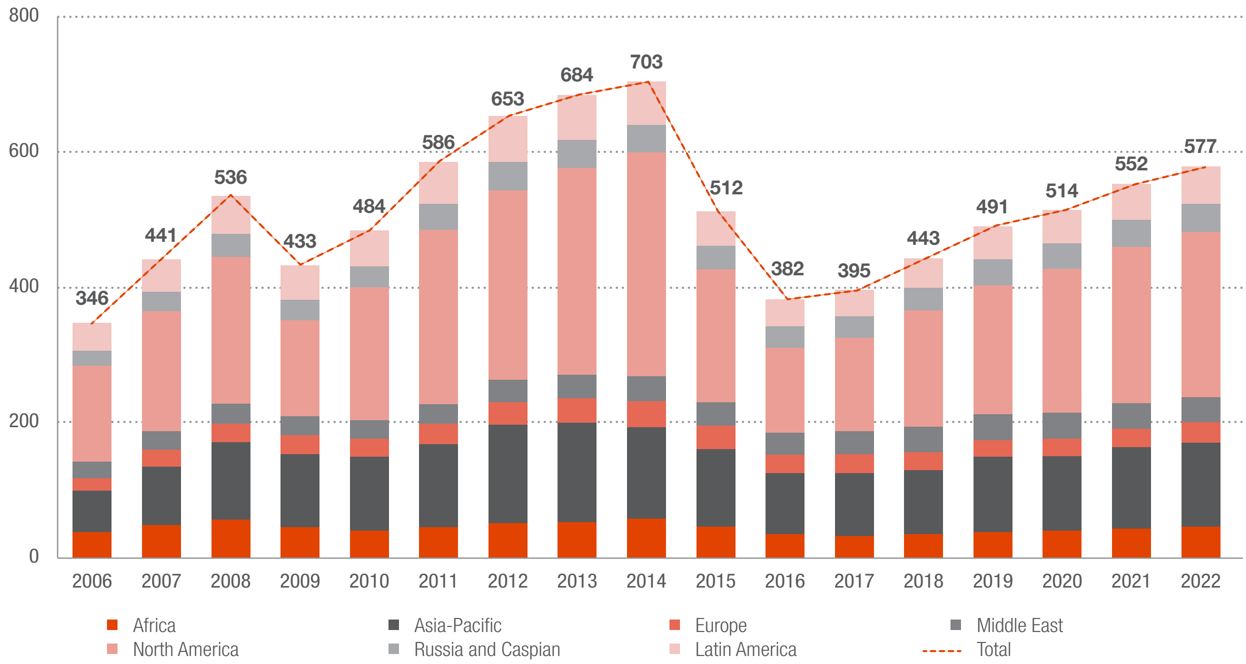
Source: International Energy Agency Oil Market Report – June 2018, Vallourec.

In its report dated 13 June 2018, the IEA published its first estimates for global oil demand and non-OPEC supply for 2019. According to the IEA, global oil demand growth for 2019 would be 1.4 mb/d, similar to this year's growth level.

The graphic below shows the anticipated level of capital expenditures for development and production by Oil & Gas market participants by region, according to IHS estimates as of June 2018. This graph shows a gradual increase in Exploration and Production (E&P) capex in USD billion. Upstream E&P capex is expected to increase 12% in 2018 compared with 2017, with US unconventional remaining the main growth driver:

E&P Capex (IHS)

In USD billion

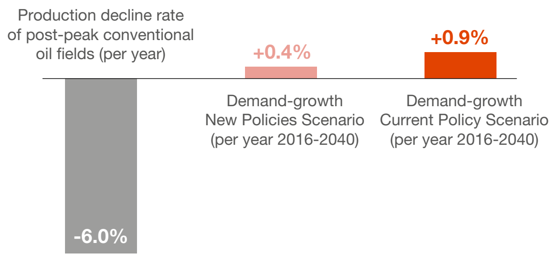


Source: IHS – Global Upstream Spending – 15 June 2018.

In addition to supply and demand balance, field depletion is a key driver of demand for oil and gas products. Over time, oil fields begin to produce less and less oil, until their production rates decline to a point where their oil production is no longer profitable. The Group's customers must accordingly develop new exploration and production projects to replace lost volumes from older oil wells as their production volumes fall, thereby creating demand for the Group's oil and gas products.

Post-peak decline rates averaging around 6% per year means that the world needs to find an additional estimated 3 mb/d [(1)] of new production each year, just for the conventional output to remain flat. Decline rates for tight oil are even considerably higher.

The graphic below shows projected new conventional production capacity required annually in order to compensate the production decline of already existing mature fields and also meet the demand growth, according to the November 2017 report from the IEA:

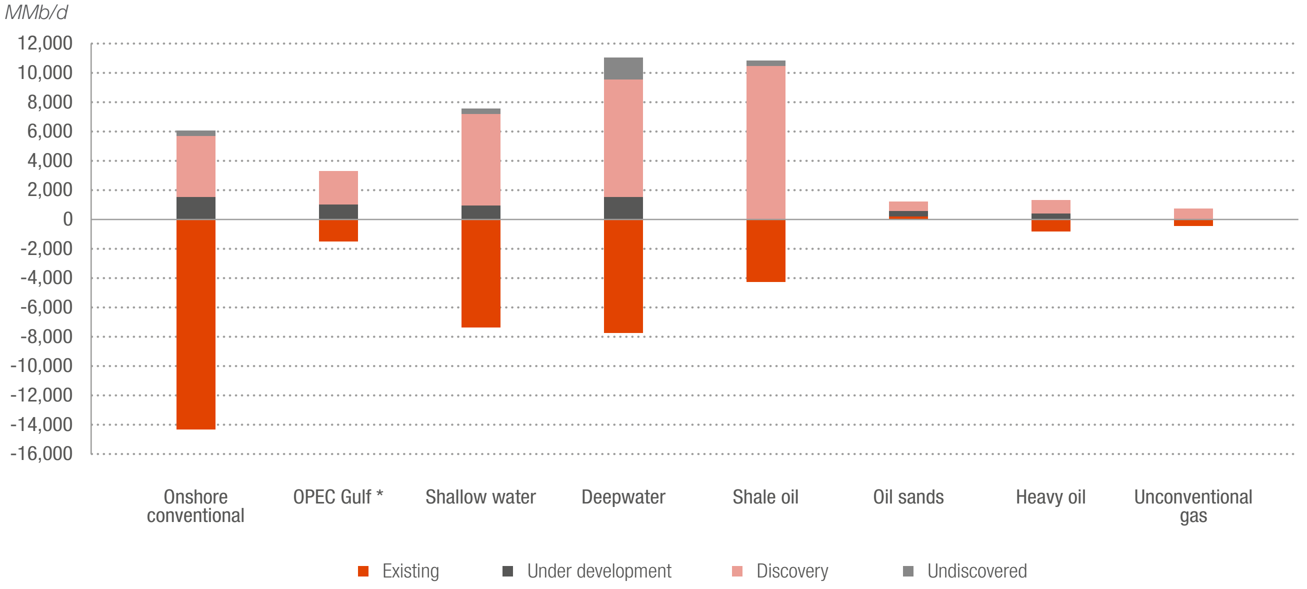


Source: International Energy Agency, "World Energy Outlook" – November 2017.

(1) IEA: Market Report Series – Oil 2018 Analysis and forecasts to 2023.

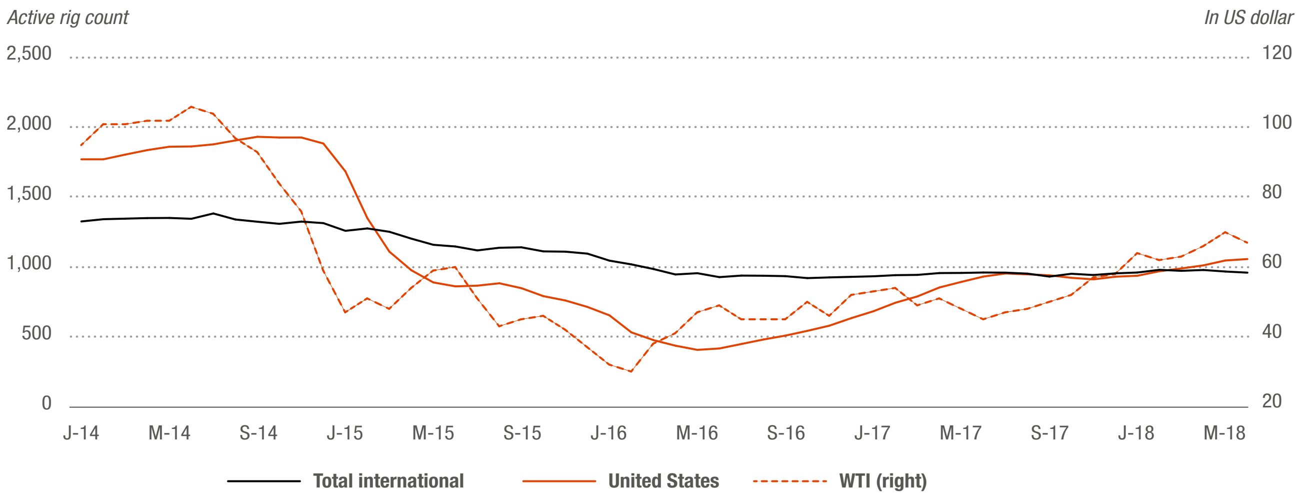
The graphic below published by McKinsey Energy Insights as of February 2018 shows global oil supply evolution by project type and development stage between 2017 and 2030 in MMb/d (Opec Gulf does not include shallow water). It shows that a large part of additional supply should come from offshore fields that have been discovered but not yet developed, meaning they will need E&P Capex, boosting the Group's future business opportunities:

Global oil supply growth by project type: 2017-2030



**OPEC Gulf does not include shallow water.*
Source: McKinsey Energy Insights, Global Oil & Supply demand to 2030, February 2018.

In addition, Vallourec typically considers data relating to drilling rig count (which tends to be correlated to oil prices), as well as tube intensity of the rigs in operation, as indicative of the state of the market. Rig counts in the United States have increased strongly compared with trough levels in May 2016. The graphic below shows the evolution of US and international rig counts over the last four years, together with the change in WTI prices, according to Baker Hughes and Thomson Reuters:



Source: Baker Hughes and Thomson Reuters – June 2018.

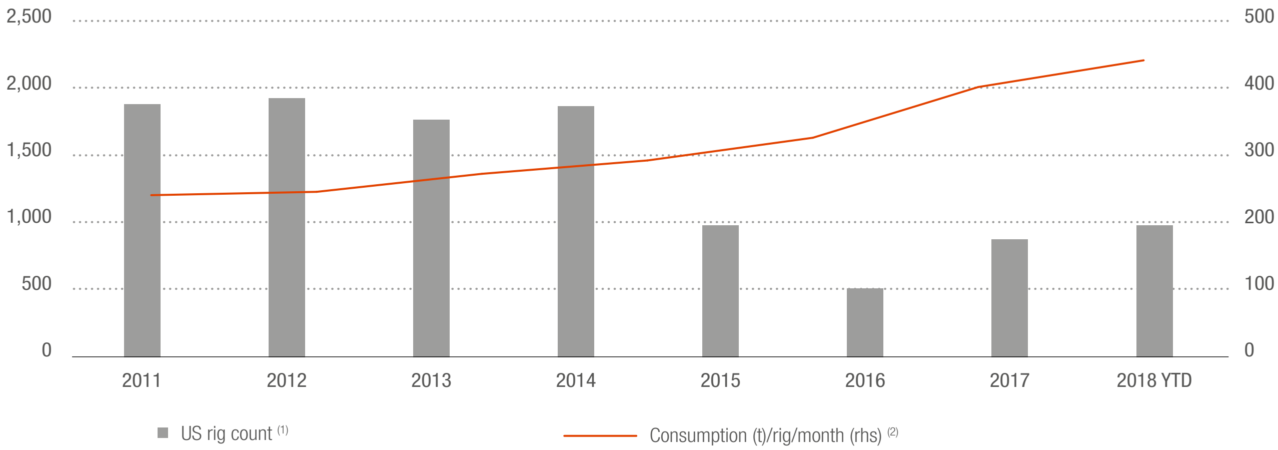
Average Brent [1] and WTI [2] oil prices in H1 2018 stood at USD 70.7/barrel and USD 65.4/barrel respectively, compared to an average of USD 49.6/barrel and USD 50.1/barrel respectively in H1 2017.

The average price of gas [3] (Henry Hub) in H1 2018 stood at USD 2.8/Mbtu compared to USD 3.1/Mbtu in H1 2017.

Oil & Gas US market

The average number of active rigs [4] in H1 2018 continued to rise steadily and stood on average at 1,000 units compared to an average of 813 units in H1 2017, representing a 23% increase year-on-year.

In addition to active rig count, US OCTG consumption is being driven by improved rig efficiencies, and a higher usage rate of horizontal rigs compared to vertical rigs. The graphic below shows that US OCTG consumption per rig in 2017 and 2018 is at the highest level compared to the last several years, according to data from Baker Hughes and Preston:



Sources:
(1) Baker Hughes (June 2018).
(2) Preston US OCTG consumption (May 2018).

In the Gulf of Mexico, the number of active drilling platforms at the end of H1 2018 stood at 18 units [4], up 6 units compared to the end of Q1 2018, but still below the level of end of H1 2017 (21 units).

Oil & Gas Rest of the World Market

- **In Brazil**, the Oil & Gas market is heavily dependent on Petrobras's capital expenditure plans, which Petrobras periodically publishes and updates in its Strategic Plan. The 2018-2022 Business and Management Plan, released on 21 December 2017, forecasts investments of USD 74.5 billion and continues to prioritize oil E&P projects with 81% of total Capex being dedicated to these projects. The continuous focus on exploration of pre-salt fields with drilling in very deep waters (over 2,000 meters) for offshore and in a highly corrosive environment requires highly premium tubular products and solutions. For line pipe projects, Vallourec is also working with Libra's team on R&D solutions for rigid risers, as an alternative to flexible risers.

  At the beginning of April 2018, Vallourec reinforced its collaboration with Petrobras by signing new long-term agreements for the supply of premium seamless OCTG products with premium steel grades and state-of-the art connections, and specialized services.

  According to the IEA, the opening up of the upstream sector, and in particular the coveted pre-salt deposits, to international oil companies (IOCs) will help Petrobras lift supply by more than 1 mb/d by 2023 [5].

- **In the EA-MEA** regions, the business environment is improving with more projects. Demand from National Oil Companies (NOCs) remains sustained.

  International oil companies' (IOCs) tendering activity has started to resume and they are progressively restarting to approve projects. In 2017, 33 international oil and gas projects reached final investment decisions ("FID") and 55 projects are expected to be sanctioned in 2018 (out of which 15 have been sanctioned at the end of June).

(1) Price of Brent: Thomson Reuters: data collected in July 2018.

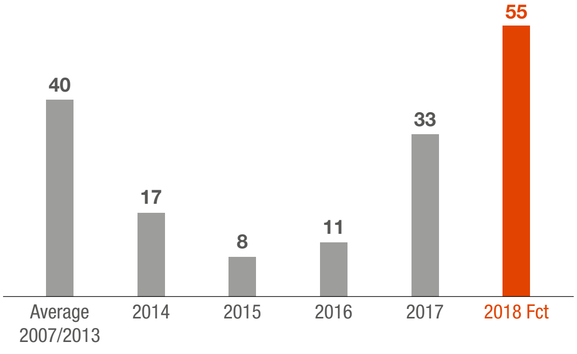
(2) Price of WTI: Nasdaq – data collected in July 2018.

(3) Price of gas (Henry Hub): Nasdaq – data collected in July 2018.

(4) Baker Hughes (number of active rigs in the United States) – data collected in July 2018.

(5) IEA: Market Report Series – Oil 2018 Analysis and forecasts to 2023.

The graphic below shows the rebound of international FID projects since 2015 lows:



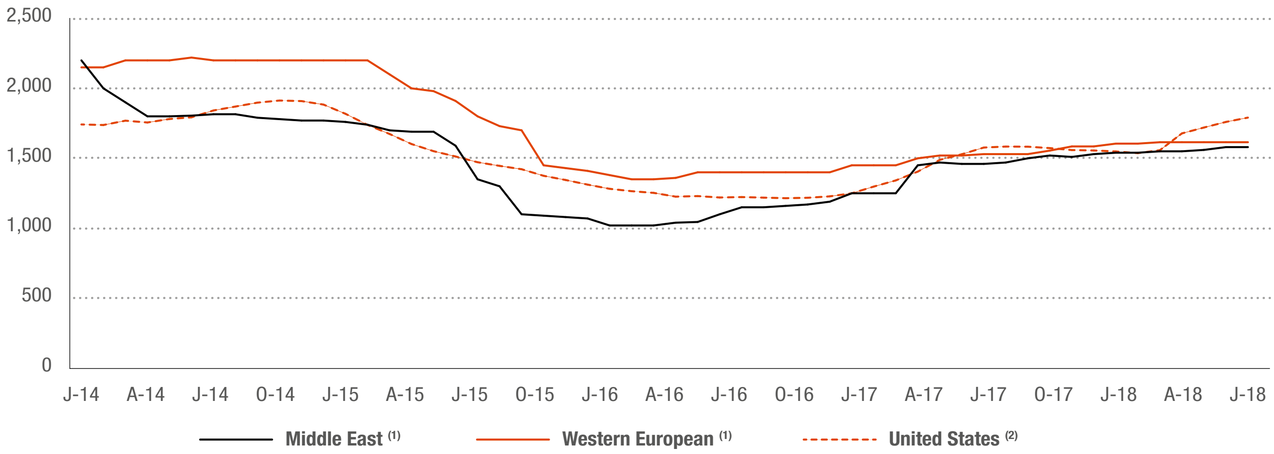
Source: Wood Mackenzie's Pre-FID Upstream Project Tracker; Vallourec Corporate Strategy & Marketing.

All of these Oil & Gas market trends are benefiting to tubular demand.

OCTG pricing evolution for Oil & Gas market

In this context, OCTG prices, while still competitive, are starting to recover from their lows of mid-2016, rising most sharply in the United States and showing incremental improvement internationally, according to data from MBR and from PipeLogix, as shown in the graphic below:

In US dollars/t



Sources:
(1) MBR (OCTG casing L80 premium connection) – June 2018.
(2) Pipe Logix (average Seamless pipes) – June 2018.

2. Power Generation

Demand for seamless tubes in the Power Generation market depends on the construction or maintenance of power plants and technological changes in specific types of power generation.

Conventional energy

Although the long-term outlook for the coal fire power plant market is not positive and coal is expected to lose ground, there is still a market in the medium-term, even if the activities should not reach the same levels as before, in particular for the construction of new power plants.

In China, due to environmental concerns and fears of an over-capacity situation, many planned and approved coal-fired power projects were postponed, with the aim of limiting total coal-fired capacity to below 1,100 GW in 2020 (*vs*. ~950 GW in 2016). The restart of these projects has created a temporary market bounce in 2018, which will not last after 2019.

India, with the highest energy consumption growth of G20 (+7.4% per year since 2013) and huge needs of electrification, is positioned as an important player in the development of new coal-fired power plant capacities.

Anti-coal policy is going on in Korea where the last tons for coal-fired power plant projects shall be delivered in 2020.

In the meantime, EU is on track to decarbonize its energy mix. In the US, in parallel with the development of renewable energies, the use of gas-fired power plants continues to be favored, thanks to low gas prices. Therefore activity remains limited to maintenance works.

Nuclear energy

The difficulties of funding, the more demanding requirements regarding safety, as well as the political reluctance of some governments are slowing down the development of nuclear power plants.

China, with a target of 58 GW of nuclear capacity installed in 2020, and 150 GW by 2030 (32 GW in 2017), is the most important market in terms of nuclear new build.

In Europe, the United Kingdom has launched a nuclear program of 16 GW new nuclear capacities by 2030, and has signed a cooperation agreement with EDF on the Hinckley Point C project (to be commissioned in 2025).

Lastly, new nuclear power plant projects are also planned in the Middle East (Turkey, Saudi Arabia, United Arab Emirates).

In addition to the new build business, Vallourec is also targeting tubular needs (steam generator tubes, heat exchanger tubes, nuclear environment products) related to the extension of the life time of existing reactors worldwide.

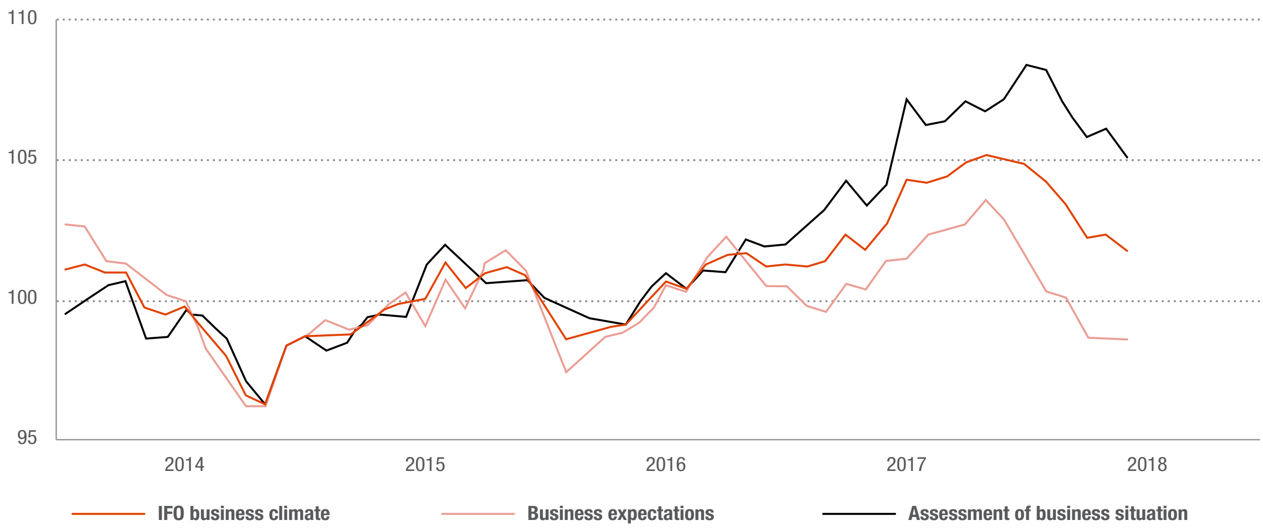
3. Industry and other markets

Demand for industrial applications is dependent upon the growth or decline of sectors, such as automotive, construction or industrial manufacturing. Such growth is driven by numerous factors, but overall bears a broad correlation to GDP growth.

In Europe, activity for Industry & Other operations continues to be at good level, despite lower business climate.

The graphic below illustrates the business climate in Germany as per German IFO:

Index, 2015 = 100



Sources: IFO Institute – 25 June 2018.

In Brazil, GDP is expected to grow +1.76% in 2018 [1].

(1) Central Bank of Brazil – Focus Report – 15 June 2018.

4. Renewables

The development of renewable energies is mainly dependent on States' policies and their willingness to comply with the Paris Agreement signed in 2016 which aims at strengthening the global response to climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels.

In France, for example, Minister Nicolas Hulot announced the "Plan Hydrogène" in June 2018 with a €100 million plan mainly aimed at developing zero emission solutions for transport, at enhancing storage capacity and at creating a carbon-free industrial sector.

The competitiveness of renewable energies compared to conventional sources of energy is also key to their development. Their competitiveness is increasing especially wind and solar PV, with many utilities and oil & gas companies announcing major investment plans to bolster development.

Demand for tubes is mostly driven by geothermal energy, offshore windmills and biomass power plants. Vallourec is also involved in different innovation projects, in particular offshore wind energy but also in solar PV, Concentrated Solar Power or hydrogen energy.

5. Raw materials

Raw material prices impact the Group as a result of its use of scrap metal and iron ore in its US and Brazilian facilities. The Group's US-based steel plant is equipped with an electric arc furnace fed with scrap metal.

In Brazil, the steel production facilities in Belo Horizonte (which included a blast furnace) were shut down as planned in July 2018. The remaining steel plant located in Jeceaba is a new facility combining an electric furnace using scrap metal and one blast furnace using iron ore extracted in Vallourec's mine in Brumadinho. The unused surplus of iron ore is sold locally.

In the United States, average scrap metal prices in H1 2018 [(1)] stood at USD 372.5/LT compared to USD 307.5/LT in H1 2017. Average scrap metal prices in Q2 2018 [(1)] stood at USD 383.3/LT, a 6% increase compared to Q1 2018 (USD 361.7/LT).

Average iron ore prices on international markets [(2)] in H1 2018 amounted to USD 69.8/T, compared to USD 74.4/T on average in H1 2017. In Q2 2018, average iron ore prices on international markets [(2)] amounted to USD 65.3/T, compared to USD 74.2/T on average in Q1 2018.

6. Currencies

The Group is sensitive to volatility in foreign currencies (notably Brazilian real, US dollar).

The translation effect is 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. When subsidiaries generate profits, the effect is positive when the currency rises against the euro and negative when it falls against the euro.

The transaction effect is the difference in revenue (or costs) expressed in the functional currency of contracts that are invoiced in US dollars or indexed against the US dollar. It is positive when the functional currency declines and negative when it rises, with a delay resulting from hedges in place.

Significant events in the first half of 2018

On 5 April 2018, Vallourec announced the renewal and reinforcement of its partnership with Petrobras, the Brazilian national oil company, with the signature of new long-term contracts for the supply of premium seamless OCTG products and associated accessories, with premium steel grades and connections using state-of-the art technology, and specialized services. The products and associated services will be used by Petrobras on its offshore Oil & Gas exploration and production wells, located at the important reservoirs of the pre-salt basin.

On 12 April 2018, Vallourec announced it successfully priced an offering of €400 million aggregate principal amount of its senior notes due 2023 at a coupon of 6.375% *per annum*. The offering was upsized from the €300 million amount announced on 9 April 2018. The proceeds from the offering will be used, together with cash on hand, to refinance Vallourec's outstanding bonds due August 2019 by redeeming them when they mature.

On 18 April 2018, Vallourec and Interpipe announced their intention to start a partnership to produce in cooperation non-OCTG carbon seamless tubes for the European market. These products, mostly for mechanical, line pipe and process applications, will be produced by Interpipe before being conditioned and controlled in a finishing line to be implemented in one of Interpipe's mills located in Nikopol city in Ukraine and managed by Vallourec. The start of production is planned for autumn 2018. These tubes will be marketed by Vallourec in Europe.

This partnership will enable Vallourec to complement its offer with highly competitive entry-level pipes and therefore propose a global portfolio of solutions to reinforce its market position in Europe, the Group's historic base currently positioned on products with higher added value.

(1) CRU – Shredded Pittsburgh – $/LT.

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

On 25 May 2018, Vallourec's Shareholders' Meeting renewed the terms of office of Supervisory Board members Ms Vivienne Cox, Mr Cédric de Bailliencourt, Ms Laurence Broseta and Ms Alexandra Schaapveld and approved the appointment of Mr Jean-Jacques Morin 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 2021. The Shareholders' Meeting also approved the renewal of the term of KPMG S.A. and Deloitte & Associés as Statutory Auditors, for a six-year period.

On 29 May 2018, Vallourec announced the signature of a contract with Framatome for the supply of more than 47,500 tubes for the 8 steam generators of the two new EPR Hinkley Point C units located in England. The tubes will be manufactured by Valinox Nucléaire, Vallourec's subsidiary specializing in the production of tubes for nuclear power plants located in Burgundy, France.

Transformation Plan

Vallourec continues to deploy its Transformation Plan which generated €52 million gross savings in H1 2018.

In April 2018, Vallourec closed the sale of the main part of its Drilling Products business to NOV, and the divestiture of Vallourec Fittings, a subsidiary producing seamless fittings in France.

The two French Drilling Products entities in Cosne-Cours-sur-Loire (Bourgogne-Franche Comté) and in Tarbes (Occitanie) that were undergoing an independent divestment process were subsequently taken over by Altifort.

The blast furnace and steel production facilities in Belo Horizonte, Brazil, were shut down as planned mid-July.

The small tube finishing line in Saint-Saulve dedicated to conventional power plants will be closed by the end of 2018.

Lastly, the Group is also continuing the deployment of its most competitive manufacturing routes, in particular VSB and Tianda, whose industrial and commercial integration is progressing well, thereby enhancing the competitiveness of its global offer.

Transactions with related parties

Transactions carried out with equity affiliates in H1 2018 relate mainly to purchases of steel rods from HKM for an amount of €154 million and from Ascoval for an amount of €57 million.

Main risks and uncertainties

Vallourec does not expect any change to its risks, as set out in Chapter 5, Section 5.1 "Risk factors" of the 2017 Registration Document (*Document de référence*) filed with the *Autorité des Marchés Financiers* (the French securities regulator) on 21 March 2018. 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 half-year consolidated financial statements and in Notes 8 and 16 to the full year consolidated financial statements.

Consolidated Group results

Income statement

In € million	H1 2017	H1 2018	Change YoY
Revenue	**1,716**	**1,844**	**7.5%**
Cost of sales [(a)]	(1,503)	(1,611)	7.2%
Industrial margin	**213**	**233**	**9.4%**
(as % of revenue)	*12.4%*	*12.6%*	*0.2 pt*
SG&A costs [(a)]	(221)	(200)	-9.5%
Other income (expense), net	(10)	(15)	N/A
EBITDA	**(18)**	**18**	**+€36m**
(as % of revenue)	*-1.0%*	*1.0%*	*+2.0 pts*
Depreciation of industrial assets	(151)	(134)	-11.3%
Amortization and other depreciations	(23)	(19)	N/A
Impairment of assets	-	(13)	N/A
Asset disposals, restructuring and other	3	(57)	N/A
Operating income (loss)	**(189)**	**(205)**	**-€16m**
Net financial income (loss)	(101)	(105)	4.0%
Pre-tax income (loss)	**(290)**	**(310)**	**-€20m**
Income tax	18	-	N/A
Share in net income (loss) of associates	(3)	1	N/A
Consolidated net income (loss)	**(275)**	**(309)**	**-€34m**
Non-controlling interests	21	2	N/A
NET INCOME (LOSS), GROUP SHARE	**(254)**	**(307)**	**-€53m**

(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	2017	2018	Change 2017/2018
Q1	475	515	8.4%
Q2	538	572	6.3%
H1	**1,013**	**1,087**	**7.3%**

In the first half of 2018, volumes increased 7.3% compared with the first half of 2017 mainly driven by the strong market momentum in the US.

Revenue

Consolidated Revenue

Over the first half of 2018, Vallourec recorded revenue of €1,844 million, up 7.5% compared with the first half of 2017 mainly driven by a positive volume impact of +7.3%, a price/mix effect of +10.3% essentially in the US, partly offset by a negative currency impact of -10.1%.

Revenue by geography

In € million	H1 2017	As % of revenue	H1 2018	As % of revenue	Change YoY at current exchange rate	Change YoY at constant exchange rate [(a)]
France	53	3.1%	43	2.3%	-18.9%	-18.9%
Germany	119	6.9%	141	7.7%	18.5%	18.5%
Other EU Countries [(b)]	108	6.3%	111	6.0%	2.8%	3.6%
Total Europe	**280**	**16.3%**	**295**	**16.0%**	**5.4%**	**5.7%**
North America	**414**	**24.1%**	**604**	**32.8%**	**45.9%**	**62.3%**
Brazil	308	18.0%	303	16.4%	-1.6%	18.6%
Other Central & South America	7	0.4%	14	0.8%	100.0%	130.1%
Total South America	**315**	**18.4%**	**317**	**17.2%**	**0.6%**	**21.0%**
China	183	10.7%	182	9.9%	-0.6%	1.3%
Other Asia and Middle East	375	21.8%	345	18.7%	-8.0%	1.7%
Total Asia and Middle East	**558**	**32.5%**	**527**	**28.6%**	**-5.6%**	**1.6%**
CIS	12	0.7%	11	0.6%	-8.3%	-9.8%
Rest of the world	137	8.0%	90	4.8%	-34.3%	-33.4%
Total Rest of the world	**149**	**8.7%**	**101**	**5.4%**	**-32.2%**	**-31.5%**
TOTAL REVENUE	**1,716**	**100.0%**	**1,844**	**100.0%**	**7.5%**	**17.6%**

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

Revenue was strongly up in North America, thanks to the recovery of the Oil & Gas business. In South America, revenue benefited from higher volumes but was impacted by unfavourable exchange rates. In Europe, revenue benefited notably from the good momentum for Industrial operations. In Asia, Middle-East and the Rest of the World, revenue was impacted by unfavourable exchange rate along with different product mix on some deliveries.

Revenue by market

In € million	H1 2017	As % of revenue	H1 2018	As % of revenue	Change YoY at current exchange rate	Change YoY at constant exchange rate [(a)]
Oil & Gas	1,069	62.3%	1,106	60.0%	3.5%	15.2%
Petrochemicals	109	6.4%	179	9.7%	64.2%	79.8%
Oil & Gas, Petrochemicals	**1,178**	**68.7%**	**1,285**	**69.7%**	**9.1%**	**21.1%**
Power Generation	**189**	**11.0%**	**180**	**9.8%**	**-4.8%**	**-3.2%**
Mechanicals	155	9.0%	203	11.0%	31.0%	36.8%
Automotive	70	4.1%	78	4.2%	11.4%	24.3%
Construction & Other	124	7.2%	98	5.3%	-21.0%	-12.9%
Industry & Other [(b)]	**349**	**20.3%**	**379**	**20.5%**	**8.6%**	**16.9%**
TOTAL	**1,716**	**100.0%**	**1,844**	**100.0%**	**7.5%**	**17.6%**

(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 (69.7% OF CONSOLIDATED REVENUE)

Oil & Gas revenue reached €1,106 million in H1 2018, up 3.5% year-on-year (+15.2% at constant exchange rates).

- **In North America**, Oil & Gas revenue increased year-on-year, despite a negative forex effect: the higher demand for tubes was supported by much higher drilling activity (the average active rig count in the US rose by 23% YoY) and OCTG prices were raised in the second half of 2017. As from H2 2018, Vallourec has passed as planned significant OCTG price increases.
- **In the EA and MEA regions**, Oil & Gas volumes were up year-on-year, along with increased prices notably in the Middle-East and South East Asia, partly offset by (i) a negative forex translation impact and (ii) a different product mix on some deliveries. Overall, tendering activity continues to increase in these regions as anticipated.
- **In Brazil**, Oil & Gas revenue was slightly down compared to H1 2017. Higher volumes were mainly offset by the weakening of the Brazilian Real. In April 2018, Vallourec reinforced its unique long-standing relationship with Petrobras by signing new long-term contracts for the supply of a comprehensive range of premium products and services.

Petrochemicals revenue was €179 million in H1 2018, up 64.2% year-on-year (+79.8% at constant exchange rates) driven by the recovery in the US.

POWER GENERATION (9.8% OF CONSOLIDATED REVENUE)

Power Generation revenue amounted to €180 million in H1 2018, down 4.8% year-on-year, (-3.2% at constant exchange rates).

This decrease was essentially due to lower sales in nuclear, while conventional power generation revenue was slightly up.

INDUSTRY & OTHER (20.5% OF CONSOLIDATED REVENUE)

Industry & Other revenue amounted to €379 million in H1 2018, up 8.6% year-on-year (+16.9% at constant exchange rates).

- **In Europe**, it was up essentially driven by higher prices in Mechanical Engineering and Automotive applications.
- **In Brazil**, Industry & Other revenue increased essentially as a result of higher volumes in Mechanical Engineering and Automotive applications driven by a recovery in the Brazilian economy. Revenue from the mine was down as a result of lower iron ore market prices.

Revenue by quarter

In € million	1st quarter	2nd quarter	1st half
2017	783	933	1,716
2018	862	982	1,844
% change year-on-year	10.1%	5.3%	7.5%
Volume effect	*8.4%*	*6.3%*	*7.3%*
Forex translation effect	*-12.0%*	*-8.5%*	*-10.1%*
Other effects (price, mix, etc.)	*13.7%*	*7.5%*	*10.3%*

Q2 2018 revenue of €982 million was up 5.3% compared with Q2 2017, with a positive volume impact of +6.3%, price/mix effect of +7.5%, partly offset by a negative currency impact of -8.5%. This is mainly due to the positive impact of US volume and price increases, along with general improved market conditions.

Sequentially, Q2 2018 Group revenue was up 13.9% compared with Q1 2018, mainly driven by Oil & Gas, bearing in mind that seasonality effects are traditionally reflected in Q1 revenue.

EBITDA

For the first half of the year, EBITDA stood at €18 million, compared to -€18 million in H1 2017.

Excluding changes in provisions, H1 2018 EBITDA improved €44 million compared to H1 2017, with net reversal of €14 million in H1 2018 and €22 million in H1 2017.

The following table shows the changes in the principal components of EBITDA in H1 2017 and H1 2018.

In € million	H1 2017	H1 2018	Change YoY
Revenue	**1,716**	**1,844**	**7.5%**
Cost of sales (a)	(1,503)	(1,611)	7.2%
Industrial margin	**213**	**233**	**9.4%**
(as % of revenue)	*12.4%*	*12.6%*	*0.2 pt*
SG&A costs (a)	(221)	(200)	-9.5%
Other income (expense), net	(10)	(15)	N/A
EBITDA	**(18)**	**18**	**+€36m**

(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 €233 million, up €20 million compared with H1 2017, reflecting (i) higher activity, (ii) the savings resulting from the Transformation Plan initiatives, (iii) partially offset by the increase in raw material prices and unfavorable currencies evolution.

The following table shows the breakdown of cost of sales (excluding depreciation) in H1 2017 and H1 2018.

In € thousand	H1 2017	H1 2018	Change H1 2017/H1 2018
Direct cost of sales	(98,525)	(108,728)	10.4%
Cost of raw materials consumed	(597,754)	(681,872)	14.1%
Labor costs	(423,413)	(374,444)	-11.6%
Other manufacturing costs [(a)]	(468,770)	(501,397)	7.0%
Change in non-raw material inventories	86,147	55,734	-35.3%
TOTAL	**(1,502,315)**	**(1,610,707)**	**7.2%**

(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) amounted to €200 million, down 9.5% compared with H1 2017, now representing 10.8% of revenue compared with 12.9% in H1 2017. This significant improvement mainly reflects savings from the Transformation Plan.

The following table shows the breakdown of SG&A expenses (excluding depreciation) in H1 2017 and in H1 2018.

In € million	H1 2017	H1 2018	Change H1 2017/H1 2018
Research and Development costs	(26)	(22)	-15.4%
Sales and marketing costs	(41)	(40)	-2.4%
General and administrative costs	(154)	(138)	-10.4%
TOTAL	**(221)**	**(200)**	**-9.5%**

Personnel expenses

Personnel expenses amounted to €505 million.

The following table shows the breakdown of personnel costs.

In € thousand	H1 2017	H1 2018	Change H1 2017/H1 2018
PERSONNEL EXPENSES			
Wages and salaries	(421,786)	(386,182)	-8.4%
Employee profit-sharing	(12,579)	(9,507)	-24.4%
Expenses related to share subscription and share purchase options and performance shares	(1,632)	(1,248)	-23.5%
Social security costs	(106,617)	(108,291)	1.6%
TOTAL	**(542,614)**	**(505,228)**	**-6.9%**

The following table shows the change in headcount. Between 31 December 2017 and 30 June 2018, the total headcount decreased by 4.7% essentially as a result of the restructuring measures undertaken as part of the Transformation Plan, including the divestiture of Vallourec Drilling Products (except for the Cosne-Cours-sur-Loire and Tarbes entities which were sold on 2 July 2018).

Closing headcount of consolidated companies	H1 2017	31/12/2017	H1 2018	Change H1 2018 *vs.* 31/12/2017
Managers	3,177	3,231	3,137	-2.9%
Technical and supervisory staff	3,076	3,048	2,853	-6.4%
Production staff	12,756	13,245	12,620	-4.7%
TOTAL	**19,009**	**19,524**	**18,610**	**-4.7%**

Operating profit/(loss)

Operating result was a loss of €205 million, compared to a loss of €189 million in H1 2017.

Depreciation of industrial assets

Depreciation of industrial assets decreased to -€134 million in H1 2018 from -€151 million in H1 2017.

Amortization and other depreciation

Amortization and other depreciation was -€19 million in H1 2018, compared with -€23 million in H1 2017.

Impairment of assets

Impairment charges were booked for a total amount of -€13 million in H1 2018 mainly resulting from the further restructuring measures undertaken in Europe in Q1 2018.

Asset disposal, restructuring and other

H1 2018 includes €57 million of "asset disposal, restructuring and other" mainly related to restructuring measures undertaken in Europe and the divestiture of the two remaining French Drilling Products entities.

Financial income/(loss)

Financial result was negative at -€105 million versus -€101 million in H1 2017. In H1 2018, Vallourec recorded higher interest charges as a result of the recent OCEANE and bond issuances. As a reminder, H1 2017 financial result included a loss of €13 million related to the change in fair value of Vallourec's NSSMC shares.

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

In € thousand	H1 2017	H1 2018	Change H1 2017/H1 2018 *(in %)*
Financial income	16,509	7,470	-54.8%
Interest expenses	(79,617)	(90,763)	14.0%
Net financial cost	**(63,108)**	**(83,293)**	**32.0%**
Other financial income and expenses	**(30,910)**	**(16,520)**	**-46.6%**
Other discounting expenses	**(6,786)**	**(5,139)**	**-24.3%**
FINANCIAL INCOME/(LOSS)	**(100,804)**	**(104,952)**	**4.1%**

Income tax expense

Income tax was nil in H1 2018, compared to a gain of €18 million in H1 2017. Tax gains were reduced compared to H1 2017 mainly as a consequence of the results recovery in North America.

Net income/(loss)

The share attributable to non-controlling interests amounted to €2 million in H1 2018, compared to €21 million in H1 2017.

Net result, Group share was a loss of €307 million in H1 2018, compared to -€254 million in H1 2017.

Liquidity and capital resources

Cash flow

Simplified statement of cash flows

In € thousand	H1 2017	H1 2018
Cash flow from operating activities	(159,890)	(144,147)
Change in operating working capital requirements	(104,341)	(235,838)
Net cash flow from operating activities (1)	**(264,231)**	**(379,985)**
Net cash flow from (used in) investing activities (2)	**(84,976)**	**17,810**
Cash flow from financing activities (3)	**(55,241)**	**291,469**
Impact of changes in exchange rates (4)	(15,131)	(29,779)
CHANGE IN CASH (1 + 2 + 3 + 4)	**(419,579)**	**(100,485)**

Net cash flow from operating activities

Net cash flow from operating activities was -€380 million for the six months ended 30 June 2018, as compared with -€264 million for the six months ended 30 June 2017.

The change in working capital requirement is broken as follows:

Gross values *(in € thousand)*	31/12/2017	Translation difference	Change	Reclassifications and other	30/06/2018
Inventories	1,183,837	(23,312)	164,850	(31,145)	1,294,229
Trade receivables	603,653	(9,991)	105,811	(6,085)	693,388
Trade payables	(581,622)	1,234	(5,973)	11,297	(575,064)
Other receivables and payables	(70,877)	1,554	(16,942)	12,343	(73,922)
Gross working capital (1)	**1,134,991**	**(30,515)**	**247,746**	**(13,590)**	**1,338,632**
Impact of hedging instruments (2)			**(11,908)**		
TOTAL (1) + (2)			**235,838**		
Change in working capital in the statement of cash flows			**(235,838)**		

The change in working capital requirement over the period amounted to -€236 million compared to -€104 million in H1 2017. This increase was driven by a seasonal effect, higher activity to prepare for H2 2018 deliveries, and momentary increased inventories induced by quotas from Section 232. Despite these effects, it was stable in number of days compared to Q2 2017. Working capital is targeted to decrease in the second half of the year.

Net cash flow from (used in) investing activities

Net cash flow used in investing activities was €18 million for H1 2018, as compared with -€85 million for H1 2017. H1 2018 amount notably includes cash from the divestiture of Vallourec Drilling Products, whereas in H1 2017 the amount was principally impacted by the divestiture of a majority stake in the Saint Saulve steel plant.

Net cash flow from financing activities

Net cash flow from financing activities was €291 million for H1 2018, as compared with -€55 million in H1 2017.

Net cash inflows in H1 2018 consisted primarily in the €400 million senior notes issued in April 2018, offset by the reimbursement of borrowings.

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

Capital expenditures

Main investments during the period from 1 January 2018 to 30 June 2018

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 2018.

Industrial capital expenditure excluding changes in scope (property, plant and equipment, intangible and biological assets)

	31/12/2017		30/06/2018	
In € thousand	Intangible assets and property, plant and equipment	Biological	Intangible assets and property, plant and equipment	Biological
Europe	85,186	-	16,568	-
North America	26,224	-	5,501	-
South America	26,700	6,184	3,909	2,159
Asia	10,519	-	5,069	-
Other	139	-	66	-
TOTAL	**148,768**	**6,184**	**31,113**	**2,159**
Capital expenditure payments during the year [a]	151,527		38,237	

(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 2018 are outlined below:

- the strengthening of the Tianda facilities, and the continued reinforcement of the Vallourec Soluções Tubulares do Brasil facilities, for OCTG and Line Pipe products, aimed at assisting the Group in its Transformation Plan;
- several projects to modernize non-destructive testing facilities, which are aimed at improving quality, cost, time frames and capacities;
- numerous maintenance and upgrading projects for facilities;
- the improvement of safety for people and facilities.

Free cash flow

In H1 2018, free cash flow was negative at -€418 million, as compared with negative free cash flow of -€325 million in H1 2017. 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 2017 and H1 2018.

In € million	H1 2017	H1 2018	Change
Cash flow from operating activities (FFO) (A)	(160)	(144)	+16
Change in operating WCR (B) (+ decrease, (increase))	(104)	(236)	-132
Gross capital expenditure (C)	(61)	(38)	+23
FREE CASH FLOW (A) + (B) + (C)	**(325)**	**(418)**	**-€93M**

Liquidity and Indebtedness

The Company's cash and cash equivalent position as at 30 June 2018 amounted to €919 million.

Vallourec's medium and long-term committed facilities amounted to €2.2 billion.

At 30 June 2018, short-term debt amounted to €656 million.

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, to a lesser extent, at the level of its subsidiaries in Brazil. The market financing is exclusively entered into by Vallourec.

The following table shows the Group's principal financial indebtedness as at 30 June 2018.

In € million	As at 30 June 2018
Private placement – maturing in August 2019	400
Private placement – maturing in August 2027	54
Bond issue maturing in September 2024	498
Convertible bond issue – maturing in October 2022	225
Non-convertible bond issue – maturing in October 2022	542
Non-convertible bond issue – maturing in October 2023	394
VSB BNDES loan	13
Jeceaba Finance Lease – Brazil	60
Commercial paper	337
Bilateral credit lines – US	69
ACC ACE	170
Other	91
TOTAL GROSS FINANCIAL INDEBTEDNESS	**2,853**

The Group's principal bank arrangements include €1.1 billion revolving credit line maturing in February 2021, €400 million revolving credit line maturing in July 2020, €450 million revolving credit line maturing in February 2020, €90 million bilateral credit line maturing in February 2021 and €110 million credit line maturing in April 2027.

Through amendments signed in March 2017, the net debt-to-equity covenant associated to the Group's medium and long-term bank facilities was 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 consolidated debt to equity ratio was 47.3% as at 31 December 2017, 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). As an indication, the ratio calculated as at 30 June 2018 under the Group's bank loan covenants would have been 64.3%.

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 €1,983 million as at 30 June 2018, a decrease of €443 million compared with €2,426 million as at 31 December 2017. This decrease is mainly explained by:

- the Group's negative net result recorded in H1 2018 for an amount of -€307 million;
- a change in foreign currency translation reserve of -€114 million.

Outlook

2018 Outlook

Vallourec confirms its market outlook for Oil & Gas: stabilised oil prices, continued depletion, and sustained hydrocarbon demand are expected to continue to support oil and gas companies' increasing global activity.

In the US, demand for tubular products is expected to stay strong due to the continuous robust drilling activity, and Vallourec will benefit from OCTG price increases realized as of the beginning of H2 2018. In addition, Section 232 measures should eventually tighten the US OCTG market, on which Vallourec is primarily serving its customers from its domestic facilities; the Group is actively working on debottlenecking its US finishing capacities to fully utilize its local rolling capacity, and in the meantime adapting its production routes to Section 232 measures, which are impacting imports to the US from Brazil.

In Brazil, drilling activity is expected to remain stable. The new long-term contracts signed with Petrobras have entered into force this summer.

In the rest of the world, Vallourec continues to anticipate higher Oil & Gas deliveries in H2 2018.

Macroeconomics should continue to benefit our Industry & Other operations. Power Generation revenue is expected to be impacted by a diminishing number of conventional power plant projects, particularly in Asia.

Despite unfavorable currencies and raw material prices faced in H1, which are currently stabilized, Vallourec confirms its positive outlook for the full year based on the progressive recovery of its main markets and the continuous significant savings generated by its Transformation Plan. The Group targets 2018 EBITDA to improve versus 2017, with H2 2018 significantly higher than H1.

3

Consolidated interim financial statements

CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE VALLOUREC GROUP AT 30 JUNE 2018

Vallourec Group's statement of financial position

Asset

In € thousand	Notes	31/12/2017	30/06/2018
NON-CURRENT ASSETS			
Net intangible assets	1	88,695	79,021
Goodwill	1	348,200	352,848
Gross property, plant and equipment	2.1	5,734,621	5,579,915
Less: accumulated amortization, depreciation and provisions	2.1	(2,757,732)	(2,812,753)
Net property, plant and equipment	2.1	2,976,889	2,767,162
Biological assets	2.2	71,494	65,948
Associates	3	101,529	104,389
Other non-current assets	4	137,163	141,227
Deferred tax assets	5	242,440	227,494
TOTAL		**3,966,410**	**3,738,089**
CURRENT ASSETS			
Inventories and work in progress	6	1,003,833	1,136,519
Trade and other receivables	7	567,923	660,400
Derivatives – assets	8	32,451	3,775
Other current assets	9	230,612	228,413
Cash and cash equivalents	10	1,021,035	918,905
TOTAL		**2,855,854**	**2,948,012**
TOTAL ASSETS OF CONTINUING OPERATIONS		**6,822,264**	**6,686,101**
Assets held for sale and discontinued operations	11	64,119	8,973
TOTAL ASSETS		**6,886,383**	**6,695,074**

Liabilities

	Notes	31/12/2017	30/06/2018
EQUITY	13		
Capital		915,976	915,976
Additional paid-in capital		1,417,897	1,417,897
Consolidated reserves		1,190,448	657,505
Reserves, financial instruments		6,694	(21,050)
Foreign currency translation reserve		(564,461)	(678,600)
Net income for the period		(536,691)	(306,569)
Treasury shares		(3,833)	(2,205)
Equity, Group share		**2,426,030**	**1,982,954**
Non-controlling interests	15	**458,545**	**446,505**
TOTAL EQUITY		**2,884,575**	**2,429,459**
Shareholder loan	22	71 702	65 747
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	16	1,817,119	2,197,220
Employee benefits	19	208,565	191,674
Provisions	17	50,552	44,187
Deferred tax liabilities	5	18,284	15,230
Other long-term liabilities	18	10,571	9,791
TOTAL		**2,105,091**	**2,458,102**
CURRENT LIABILITIES			
Provisions	17	148,799	158,088
Overdrafts and other short-term borrowings	16	746,220	656,216
Trade payables		581,622	575,064
Derivatives – liabilities	8	12,894	28,981
Tax liabilities		16,945	8,444
Other current liabilities	20	305,881	300,949
TOTAL		**1,812,361**	**1,727,742**
Liabilities held for sale and discontinued operations	11	12,654	14,024
TOTAL EQUITY AND LIABILITIES		**6,886,383**	**6,695,074**

PRESENTATION OF PERFORMANCE

Consolidated income statement

In € thousand	Notes	H1 2017	H1 2018
Revenue	**23**	**1,715,589**	**1,843,848**
Cost of sales [a]	24	(1,502,315)	(1,610,707)
Sales, general and administrative costs [a]	25	(221,306)	(199,626)
Other	26	(10,268)	(15,457)
EBITDA		**(18,300)**	**18,058**
Depreciation of industrial assets	27	(150,614)	(134,488)
Other depreciation and amortization	27	(22,680)	(18,113)
Impairment of assets and goodwill	28	(244)	(13,594)
Asset disposals, restructuring costs and non-recurring items	28	3,073	(56,716)
OPERATING INCOME/(LOSS)		**(188,765)**	**(204,853)**
Financial income		16,509	7,470
Interest expenses		(79,617)	(90,763)
Net interest expense		(63,108)	(83,293)
Other financial income and expenses		(30,910)	(16,520)
Other discounting expenses		(6,786)	(5,139)
NET FINANCIAL INCOME/(LOSS)	**29**	**(100,804)**	**(104,952)**
PRE-TAX INCOME/(LOSS)		**(289,569)**	**(309,805)**
Income tax	30	18,237	5
Share in net income/(loss) of associates	3	(3,781)	552
NET INCOME/(LOSS) FROM CONTINUING OPERATIONS		**(275,113)**	**(309,248)**
CONSOLIDATED NET INCOME/(LOSS)		**(275,113)**	**(309,248)**
Attributable to non-controlling interests		(21,418)	(2,679)
Group share		**(253,695)**	**(306,569)**
Group share:			
Earnings per share	14	(0.6)	(0.7)
Diluted earnings per share	14	(0.6)	(0.7)

(a) Before amortization and depreciation.

Statement of comprehensive income

In € thousand	Notes	H1 2017	H1 2018
CONSOLIDATED NET INCOME/(LOSS)		**(275,113)**	**(309,248)**
Other comprehensive income:			
Actuarial gains and losses on post-employment benefits		(2,813)	7,150
Tax attributable to actuarial gains and losses on post-employment benefits		821	(2,429)
Items that will not be reclassified to profit or loss		**(1,992)**	**4,721**
Exchange differences on translating net assets of foreign entities	14 and 16	(297,370)	(123,305)
Change in fair value of hedging financial instruments		34,915	(32,283)
Change in fair value of available-for-sale securities		8,665	-
Tax relating to the change in fair value of hedging financial instruments		1,921	2,774
Tax attributable to the change in fair value of available-for-sale securities		-	-
Items that may be reclassified subsequently to profit or loss		**(251,869)**	**(152,814)**
OTHER COMPREHENSIVE INCOME/(LOSS) (NET OF TAX)		**(253,861)**	**(148,092)**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(528,974)**	**(457,340)**
Attributable to non-controlling interests		(60,288)	(11,759)
Group share		**(468,686)**	**(445,581)**

Statement of changes in equity, Group share

	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 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	-	-	1,632	-	-	-	-	1,632	-	1,632
Changes in consolidation scope and other	-	-	892	-	(108)	-	-	784	(1,108)	(324)
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**
POSITION AS AT 31 DECEMBER 2017	**915,976**	**1,417,897**	**1,190,448**	**(564,461)**	**6,694**	**(3,833)**	**(536,691)**	**2,426,030**	**458,545**	**2,884,575**
Change in foreign currency translation reserve	-	-	-	(114,254)	-	-	-	(114,254)	(9,051)	(123,305)
Actuarial gains and losses on retirement commitments	-	-	3,758	-	-	-	-	3,758	963	4,721
Financial instruments	-	-	-	-	(28,516)	-	-	(28,516)	(992)	(29,508)
Other comprehensive income/(loss)	-	-	*3,758*	*(114,254)*	*(28,516)*	-	-	*(139,012)*	*(9,080)*	*(148,092)*
HY 2018 net income/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**(306,569)**	**(306,569)**	**(2,679)**	**(309,248)**
Comprehensive Income/(loss)	-	-	*3,758*	*(114,254)*	*(28,516)*	-	*(306,569)*	*(445,581)*	*(11,759)*	*(457,340)*
Appropriation of 2017 net income/(loss)	-	-	(536,691)	-	-	-	536,691	-	-	-
Change in share capital and additional paid-in capital	-	-	-	-	-	-	-	-	-	-
Change in treasury shares	-	-	(1,628)	-	-	1,628	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(268)	(268)
Share-based payments	-	-	1,248	-	-	-	-	1,248	-	1,248
Changes in consolidation scope and other	-	-	370	115	772	-	-	1,257	(13)	1,244
POSITION AS AT 30 JUNE 2018	**915,976**	**1,417,897**	**657,505**	**(678,600)**	**(21,050)**	**(2,205)**	**(306,569)**	**1,982,954**	**446,505**	**2,429,459**

Statement of changes in non-controlling interests

	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 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**
POSITION AS AT 31 DECEMBER 2017	**453,702**	**27,283**	**598**	**(23,038)**	**458,545**
Change in foreign currency translation reserve	-	(9,051)	-	-	(9,051)
Actuarial gains and losses on retirement commitments	963	-	-	-	963
Financial instruments	-	-	(992)	-	(992)
Other comprehensive income/(loss)	*963*	*(9,051)*	*(992)*	-	*(9,080)*
HY 2018 net income/(loss)	**-**	**-**	**-**	**(2,679)**	**(2,679)**
Comprehensive Income/(loss)	*963*	*(9,051)*	*(992)*	*(2,679)*	*(11,759)*
Appropriation of 2017 net income/(loss)	(23,038)	-	-	23,038	-
Dividends paid	(268)	-	-	-	(268)
Changes in consolidation scope and other	6	(19)	-	-	(13)
POSITION AS AT 30 JUNE 2018	**431,365**	**18,213**	**(394)**	**(2,679)**	**446,505**

Statement of cash flows

In € thousand	Notes	H1 2017	H1 2018
Consolidated net income (including non-controlling interests)		**(275,113)**	**(309,248)**
Net amortization, depreciation and provisions		123,678	165,845
Unrealized gains and losses linked to changes in fair value		18,521	5,529
Income and expenses linked to share options and equivalent		1,632	1,248
Capital gains and losses on disposals		(1,067)	18,018
Share of net income in associates	3	3,782	(552)
Dividends reclassified as cash flows from investing activities		(1,026)	(562)
Cash flow from operating activities after net financial cost and taxes		**(129,593)**	**(119,722)**
Net financial cost	29	63,108	83,293
Tax expense (including deferred taxes)	30	(18,237)	(5)
Cash flow from operating activities before net financial cost and taxes		**(84,722)**	**(36,434)**
Interest paid		(79,617)	(90,763)
Tax paid		(11,963)	(24,341)
Interest received		16,412	7,391
Cash flow from operating activities		**(159,890)**	**(144,147)**
Change in operating working capital requirements	12	(104,341)	(235,838)
NET CASH FLOW FROM OPERATING ACTIVITIES (1)		**(264,231)**	**(379,985)**
Cash outflows for acquisitions of property, plant and equipment and intangible assets	2.1	(58,691)	(36,078)
Cash outflows for acquisitions of biological assets	2.1	(2,334)	(2,159)
Cash inflows from disposals of property, plant and equipment and intangible assets		753	6,493
Impact of acquisitions (changes in consolidation scope)		(537)	(1,851)
Cash of subsidiaries acquired (changes in consolidation scope)			
Impact of disposals (changes in consolidation scope)	11	(24,000)	50,837
Cash of subsidiaries sold (changes in consolidation scope)		(1,193)	
Other cash flows from investing activities		1,026	568
NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (2)		**(84,976)**	**17,810**
Increase and decrease in equity		-	-
Dividends paid during the year			
■ Dividends paid in cash to shareholders in the parent company		-	-
■ Dividends paid to non-controlling interests		(262)	(268)
Movements in treasury shares		(531)	-
Proceeds drawn from new borrowings	12	882,392	817,467
Repayments of borrowings	12	(931,681)	(508,282)
Change in percentage interest in controlled companies		-	-
Other cash flows from financing activities		(5,159)	(17,448)
CASH FLOW FROM FINANCING ACTIVITIES (3)		**(55,241)**	**291,469**
Impact of changes in exchange rates (4)		(15,131)	(29,779)
CHANGE IN CASH (1 + 2 + 3 + 4)		**(419,579)**	**(100,485)**
Opening net cash		**1,277,114**	**1,010,323**
Closing net cash		**857,535**	**909,839**
Change		(419,579)	(100,485)

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 2018

	Notes	31/12/2017	Change	30/06/2018
Gross cash (1)	10	1,021,035	(102,131)	918,905
Bank current accounts in debit and overdrafts (2)	16	10,712	(1,646)	9,066
CASH (3) = (1) - (2)		**1,010,323**	**(100,485)**	**909,839**
Gross financial debt (4)	16	2,552,627	291,743	2,844,370
NET FINANCIAL COST = (4) - (3)		**1,542,304**	**392,228**	**1,934,531**

Statement of changes in net debt in HY 2017

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

Summary notes to the consolidated financial statements for H1 2018

(In € thousand unless stated otherwise)

A – Consolidation principles

1. Basis of preparation and presentation of the financial statements

The interim consolidated financial statements as at 30 June 2018, as well as the notes relating thereto were approved by Vallourec's Management Board on 23 July 2018.

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 2017, 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 2018 were prepared based on the standards [(1)] and interpretations of the current IFRS, which were adopted by the European Union, which shall apply to the consolidated annual financial statements as at 31 December 2018, 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 2017 and 30 June 2018, as well as the primary operations which contributed to the net profit for H1 2018. 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 2017, registered with the AMF on 21 March 2018 (available on the Company website at www.vallourec.com).

NEW MANDATORY STANDARDS TO BE APPLIED STARTING ON 1 JANUARY 2018

IFRS 15 introduces a new model for recording revenue from ordinary activities for customer contracts and replaces IAS 11, IAS 18 and the associated IFRIC and SIC interpretations. The Group has chosen to apply this standard according to the retrospective method. Application of this new standard has not had any significant impact on the Group's equity, or on its recording of revenue.

IFRS 9 replaces IAS 39 on financial instruments and notably introduces changes concerning classification of financial assets, the impairment model, and risk hedging. The Group has chosen not to apply phase 3, "Hedge accounting." Application of this new standard has not had any significant impact on the Group's financial statements.

The interim consolidated financial statements as at 30 June 2018 have not been impacted by the other mandatory standards to be applied starting on 1 January 2018.

NEW STANDARDS NOT APPLIED EARLY

The IASB issued IFRS 16 – Leases, which introduces a new accounting model for lease agreements, which will be mandatory as from 1 January 2019. The Group is currently finalizing (i) the review and analysis of its leases, in particular considering items recorded as off-balance sheet commitments, (ii) as well as an estimate of the discount rates to be used. In this context, the Group is continuing to assess any effects prompted by the first application of this text, and had not applied the standard early as at 1 January 2018.

(1) The IFRS framework as adopted in the European Union may be consulted on the European Commission's website (http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).

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 2019.

The accounting methods and options used in approving the 2018 half-year financial statements could be modified according to changes in IFRS that are adopted by the European Commission between now and 31 December 2018.

2. Accounting principles and methods

2.1 GENERAL MEASUREMENT PRINCIPLES

The accounting principles and measurement methods have been applied consistently to the periods presented, except for the modifications made by the application of the new mandatory standards to be applied as from 1 January 2018.

2.1.1 Revenue

Revenue reflects the sale of finished products and services. The Group analyzes the following five stages to determine the principle for recognizing revenue:

1) identification of contract;
2) identification of distinct performance obligations within the contract;
3) evaluation of contract price;
4) allocation of overall price to each performance obligation *pro rata* of their specific sale prices;
5) recording of revenue when a performance obligation has been satisfied.

Revenue is recorded either a single time, when the Group has fulfilled the performance obligation by transferring control of the asset, or *pro rata* of the percentage of completion of the operation at the closing date.

No revenue is recognized if there are significant uncertainties as to the recovery of the amount due or the associated costs.

2.1.2 Financial assets (excluding hedge derivatives)

Financial assets include:

- non-current financial assets: other equity interests and associated receivables, construction participation loans and guarantees;
- current financial assets, including accounts receivable and other trade receivables, short-term derivative instruments and cash and cash equivalents (investment securities).

Initial measurement

Non-derivative financial assets are initially measured at fair value on the transaction date, including transaction costs, except for assets measured at fair value through profit or loss.

In most cases, the fair value on the transaction date is the historical cost, (i.e. the acquisition cost of the asset).

Classification and measurement at the end of the reporting period

Financial assets (excluding hedging derivatives) are classified according to IFRS 9 in one of the following three categories:

- financial assets at amortized cost;
- financial assets measured at fair value through Other Comprehensive Income;
- financial assets measured at fair value through profit or loss.

The classification is determined according to the following two parameters:

- the economic model followed by the Group to manage financial assets;
- features of the contractual cash flows of financial assets.

Financial assets at amortized cost

These financial assets meet the following two conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These are mainly non-derivative financial assets with fixed or determinable payments that are not listed on an active market.

In the Group, this category includes:

- receivables associated with participating interests, long-term loans and construction participation loans;
- accounts receivable and other trade receivables.

The amortized cost of short-term receivables such as trade receivables is usually equal to their historical cost.

Loans to employees are measured using the effective interest rate method applied to estimated future cash flows until the maturity dates of the loans.

Financial assets measured at fair value through Other Comprehensive Income

These financial assets are held by the Group with the purpose of collecting contractual cash flows and with a view towards disposal. Likewise, they are intended to result in cash flows on specific dates which correspond solely to payments of principal and interest on the principal amount outstanding.

In the Group, the main assets in this category are investments in equity instruments. In general, these are:

- unlisted shares whose fair value cannot be reliably estimated. They are recorded at their cost and undergo impairment testing when the consolidated financial statements are prepared;
- listed shares measured at their fair value at the reporting date. This fair value is determined based on the stock market price at the reporting date.

Changes in fair value are recorded directly in equity and may not be reclassified. The interest calculated according to the amortized cost method and impairments are recorded under income (loss).

Financial assets measured at fair value through profit or loss

This category of assets includes financial assets which are not measured at amortized cost, or that are measured at fair value under Other Comprehensive Income.

These are primarily cash assets (investment securities, cash and cash equivalents, etc.) and asset derivatives that have not been expressly designated as hedging derivatives (security deposits and guarantees).

Investment securities (French SICAV and FCP mutual funds, etc.) are measured at fair value at the reporting date, and changes in fair value are recognized in financial income/(loss). They are therefore not tested for impairment. Fair value is determined mainly by reference to market quotations.

Impairment testing of financial assets

Starting from the initial recording, assets measured at amortized cost and assets measured at their fair value through Other Comprehensive Income are impaired according to the credit losses expected over the life of the asset.

At each closing date, they are also subject to impairment testing if there is sign of impairment such as:

- significant financial difficulties or a high probability that the counterparty will suffer bankruptcy or restructuring;
- a high risk of non-recovery of receivables;
- the lender, for economic or legal reasons relating to the borrower's financial difficulties, granting the borrower payment facilities not initially provided for;
- an effective breach of contract, such as the failure to make a payment (of interest, principal or both);
- the disappearance of an active market for the financial asset concerned.

2.2 USE OF ESTIMATES AND JUDGMENT

The interim financial statements have been prepared according to the same rules and methods that were used to prepare the annual financial statements, with the exception of changes in methods occurring during the year. 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 2017.

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 a highly competitive international environment, volatility of the costs of commodities and energy, volatility of foreign currencies), 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 impairment tests. As at 30 June 2018, the Group had analyzed the position of the various CGUs and concluded based on an update of the sensitivity analyses that there was no sign of an impairment loss as at 30 June 2018.

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

B – Consolidation scope

On 25 April, Vallourec finalized the sale of its "Drilling Products" business with the American oil services group National Oilwell Varco (NOV). This sale concerned Vallourec's industrial Drilling Products business in North America, the Middle East, the Netherlands, and France (one plant in Aulnoye-Aymeries).

On 26 April, the Group sold Vallourec Fittings, a subsidiary that produces fittings in France (plant in Maubeuge) to Allied Group.

During the second quarter, Vallourec began exclusive negotiations on the sale of the French entities of Vallourec Drilling France (plants in Cosne-Cours-sur-Loire and Tarbes) to Altifort. The sale was finalized on 2 July 2018.

C – Notes to the consolidated financial statements (in € thousand – €k)

CONTENTS

NOTE 1 Intangible assets and goodwill

	Concessions, patents, licenses and other rights	Other intangible assets	Total intangible assets	Goodwill
GROSS VALUES				
As at 31/12/2017	**85,730**	**466,671**	**552,401**	**578,108**
Acquisitions	-	1,476	1,476	-
Disposals	-	-	-	-
Reclassification to assets held for sale and discontinued operations (see Note 11)	-	-	-	(3,212)
Change in consolidation scope	(9)	(31)	(40)	(36,967)
Impact of changes in exchange rates	(1,141)	7,398	6,257	7,369
Other changes	137	69	206	-
AS AT 30/06/2018	**84,717**	**475,583**	**560,300**	**545,298**
AMORTIZATION AND IMPAIRMENT				
As at 31/12/2017	**(68,775)**	**(394,931)**	**(463,706)**	**(229,908)**
Net amortization expenses for the fiscal year	(2,565)	(9,757)	(12,322)	-
Impairment (see Note 2.3)	-	-	-	-
Disposals	-	-	-	-
Reclassification to assets held for sale and discontinued operations (see Note 11)	-	-	-	3,212
Change in consolidation scope	9	24	33	36,967
Impact of changes in exchange rates	1,007	(6,236)	(5,229)	(2,721)
Other changes	11	(66)	(55)	-
AS AT 30/06/2018	**(70,313)**	**(410,966)**	**(481,279)**	**(192,450)**
NET VALUES				
As at 31/12/2017	**16,955**	**71,740**	**88,695**	**348,200**
AS AT 30/06/2018	**14,404**	**64,617**	**79,021**	**352,848**

Changes in consolidation scope in the first half primarily reflect the sale of Vallourec Fittings and the exit of the US Drilling Products business in North America.

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 31/12/2017	**135,324**	**816,747**	**4,316,004**	**114,896**	**351,649**	**5,734,621**
Acquisitions	-	1,541	1,515	22,795	3,786	29,637
Disposals	(1,360)	(3,106)	(21,758)	(454)	(11,205)	(37,883)
Reclassification to assets held for sale and discontinued operations (see Note 11)	-	-	-	-	-	-
Changes in consolidation scope	(1,721)	(3,454)	(25,661)	790	(2,394)	(32,440)
Impact of changes in exchange rates	(6,673)	(8,185)	(67,547)	(2,271)	(18,462)	(103,138)
Other changes	688	(1,526)	30,767	(40,376)	(435)	(10,882)
AS AT 30/06/2018	**126,258**	**802,017**	**4,233,320**	**95,380**	**322,939**	**5,579,915**
DEPRECIATION AND IMPAIRMENT						
As at 31/12/2017	**(40,307)**	**(334,300)**	**(2,179,261)**	**(3,361)**	**(200,503)**	**(2,757,732)**
Net depreciation expenses for the fiscal year	(661)	(15,067)	(108,070)	-	(12,005)	(135,803)
Impairment losses (see Note 2.3)	(258)	(98)	(13,238)	-	-	(13,594)
Disposals	-	1,338	18,767	-	10,830	30,935
Reclassification to assets held for sale and discontinued operations (see Note 11)	-	-	-	-	-	-
Changes in consolidation scope	1,477	2,607	22,806	-	2,345	29,235
Impact of changes in exchange rates	1,810	1,332	19,118	(25)	6,066	28,301
Other changes	4,703	620	(4,851)	-	5,433	5,905
AS AT 30/06/2018	**(33,236)**	**(343,568)**	**(2,244,729)**	**(3,386)**	**(187,834)**	**(2,812,753)**
NET VALUES						
As at 31/12/2017	**95,017**	**482,447**	**2,136,743**	**111,535**	**151,146**	**2,976,889**
AS AT 30/06/2018	**93,022**	**458,449**	**1,988,591**	**91,994**	**135,105**	**2,767,162**

Changes in consolidation scope in the first half primarily reflect the sale of Vallourec Fittings.

Capital expenditure excluding changes in scope

	31/12/2017		30/06/2018	
	Intangible assets and property, plant and equipment	Biological	Intangible assets and property, plant and equipment	Biological (see Note 2.2)
Europe	85,186	-	16,568	-
North America	26,224	-	5,501	-
South America	26,700	6,184	3,909	2,159
Asia	10,519	-	5,069	-
Other	139	-	66	-
TOTAL	**148,768**	**6,184**	**31,113**	**2,159**
	154,952		**33,272**	
Note 1 : acquisition of intangible assets	3,588	-	1,476	-
Note 2.1 : acquisition of property, plant and equipment	145,180	6,184	29,637	2,159
Total industrial capital expenditure	**148,768**	**-**	**31,113**	**-**
Changes in fixed asset liabilities and partner contributions	(3,425)	-	4,965	-
TOTAL	**145,343**	**6,184**	**36,078**	**2,159**
Statement of cash flows: capital expenditure paid out during the year:	151,527		38,237	

NOTE 2.2 Biological assets

Change in biological assets	Total
As at 31/12/2017	**71,494**
Investments	2,159
Changes due to remeasurement	5,735
Net depreciation expenses for the period	(4,476)
Impairment losses	-
Reclassification to inventory	(861)
Foreign exchange differences	(8,422)
Other	319
AS AT 30/06/2018	**65,948**

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 if there are signs of impairment on a CGU or an isolated asset.

As at 30 June 2018, there was no sign of impairment resulting in the recognition of impairment losses.

Additional adaptation measures taken in France in the first half resulted in the recording of an impairment loss of €14 million (see Note 28).

NOTE 3 Associates

The Group's main associates are listed below:

	HKM Allemagne	Others	Total
Activity	Steel mill		
Business location	Germany		
As at 31/12/2017	**80,688**	**20,841**	**101,529**
Capital increase	-	1,728	1,728
Impact of changes in exchange rates	-	586	586
Dividends paid	-	(6)	(6)
Contribution to net income of the period	-	552	552
AS AT 30/06/2018	**80,688**	**23,701**	**104,389**

NOTE 4 Other non-current assets

	Other equity interests	Loans	Other financial assets	Other non-current assets	Provisions	Total
As at 31/12/2017	**5,745**	**21,709**	**35,922**	**98,958**	**(25,171)**	**137,163**
Impact of changes in exchange rates	(398)	(89)	(3,173)	(3,000)	643	(6,017)
Changes in gross values	-	5,408	7,170	(1,068)	-	11,510
Increase of provisions	-	-	-	-	-	-
Reversals of provision	-	-	-	-	1,013	1,013
Other	83	(277)	(225)	(72)	(1,951)	(2,442)
AS AT 30/06/2018	**5,430**	**26,751**	**39,694**	**94,818**	**(25,466)**	**141,227**

A €5 million loan was granted to Ascoval during the first half.

Other financial investments consisted mainly of interest-bearing security deposits, mainly paid in connection with tax disputes in Brazil (€28 million as at 30 June 2018; see also Note 17).

Other non-current assets consisted mainly of €77 million in deferred tax receivables in Brazil and the United States.

Maturities of other non-current assets

30/06/2018	1 to 5 years	5 years or more	Total
Loans	26,697	54	26,751
Other investments in equity instruments	-	5,430	5,430
Other financial assets	86,190	48,322	134,512
TOTAL	**112,887**	**53,806**	**166,693**

NOTE 5 Deffered taxes

	31/12/2017	30/06/2018
Deferred tax assets	242,440	227,494
Deferred tax liabilities	18,284	15,230
NET DEFERRED TAX ASSETS/(DEFERRED TAX LIABILITIES)	**224,156**	**212,264**

Changes in deferred taxes are broken down as follows:

Net deferred tax assets/(liabilities)	
AS AT 1 JANUARY 2018	**224,156**
Impact of changes in exchange rates	(23,035)
Recognized in net income	15,333
Recognized in reserves	1,567
Other	(5,757)
AS AT 30 JUNE 2018	**212,264**

The total amount of deferred taxes relating to tax loss carryforwards that was not recognized was €565 million as at 30 June 2018. This primarily reflects the unrecognized deferred taxes as at 31 December 2017 (€660 million relating to earlier tax losses), supplemented by the non-recognition of deferred tax assets relating to tax loss carryforwards of €19 million for the period, offset by the €114 million recovery related to the rate change for France.

NOTE 6 Inventories and work in progress

	Raw materials and merchandise	Goods in production	Intermediate and finished goods	Total
GROSS VALUES				
As at 31/12/2017	**436,830**	**375,814**	**371,193**	**1,183,837**
Changes in inventories recognized in the income statement	49,216	18,958	96,677	164,851
Impact of changes in exchange rates	(8,791)	5,672	(20,193)	(23,312)
Reclassification to assets held for sale and discontinued operations (see Note 11)	(14,329)	(2,508)	(3,756)	(20,593)
Changes in consolidation scope	(5,633)	4,540	(5,017)	(6,110)
Other changes	(3,494)	(98)	(852)	(4,444)
AS AT 30/06/2018	**453,799**	**402,378**	**438,052**	**1,294,229**
IMPAIRMENT				
As at 31/12/2017	**(74,132)**	**(39,053)**	**(66,819)**	**(180,004)**
Impact of changes in exchange rates	1,405	(377)	1,994	3,022
Allowances	(9,420)	(1,581)	(22,139)	(33,140)
Reversals of provisions	10,763	4,502	23,460	38,725
Reclassification to assets held for sale and discontinued operations (see Note 11)	4,977	1,083	1,054	7,114
Changes in consolidation scope	(3,307)	21	319	(2,967)
Other changes	(435)	770	9,205	9,540
AS AT 30/06/2018	**(70,149)**	**(34,635)**	**(52,926)**	**(157,710)**
NET VALUES				
As at 31/12/2017	**362,698**	**336,761**	**304,374**	**1,003,833**
AS AT 30/06/2018	**383,650**	**367,743**	**385,126**	**1,136,519**

NOTE 7 Trade and other receivables

	Advances and partial payments on orders	Trade and other receivables (gross)	Provisions for impairment	Total
As at 31/12/2017	**34,448**	**569,206**	**(35,731)**	**567,923**
Impact of changes in exchange rates	(472)	(9,519)	342	(9,649)
Changes in gross values	(7,763)	113,574	-	105,811
Increase in provisions	-	-	(7,878)	(7,878)
Reversals of provisions	-	-	6,005	6,005
Reclassification to assets held for sale and discontinued operations (see Note 11)	(15)	(5,745)	1,348	(4,412)
Other changes	-	(326)	2,926	2,600
AS AT 30/06/2018	**26,198**	**667,190**	**(32,988)**	**660,400**

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 asset position of €20 million as at 31 December 2017, hedging assets moved to a net liability position of €25 million as at 30 June 2018.

Fluctuations in the euro against the US dollar in H1 2018 accounted for most of the €24.9 million change in the intrinsic value of hedges of forecast sales and purchases in foreign currencies and the €12.8 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 IFRS 9. Their changes in value do not have a material impact on foreign exchange gains or losses.

Statement of financial position items	As at 31/12/2017	As at 30/06/2018	Changes in H1 2018 Total	Reserves	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	9,302	(15,609)	(24,911)	(23,582)	(1,329)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with trade receivables (and accounts payable [b])	11,019	(1,741)	(12,760)	2	(12,762)
Changes in the intrinsic value of forward sales of currencies (and forward purchases) associated with financial receivables (and financial payables)	4,555	(1,188)	(5,743)	-	(5,743)
Recognition of premium/discount	(7,140)	(8,127)	(987)	-	(987)
Recognition of changes in fair value of interest rate swaps	-	-	-	-	-
Changes in values linked to hedging instruments set up under employee share ownership schemes	1,821	1,459	(362)	14	(376)
SUBTOTAL: DERIVATIVES	**19,557**	**(25,206)**	**(44,763)**	**(23,566)**	**(21,197)**
■ Of which derivatives – assets	32,451	3,775	-	-	-
■ Of which derivatives – liabilities	12,894	28,981	-	-	-
■ Of which reclassification to asset held for sale	-	-			
2 – Receivables (payables) used for commercial hedges					
Order book	(2,084)	(10,801)	(8,717)	(8,717)	-
Trade receivables	(2,842)	(6,077)	(3,235)	-	(3,235)
3 – Receivables (payables [b]) hedged in currencies – translation gain/loss					
Measurement as at the reporting date exchange rate (trade payables [b] and accounts receivable)	(8,507)	7,511	16,018	-	16,018
Measurement as at the reporting date exchange rate (financial liabilities [b] and accounts receivable)	(2,254)	1,188	3,442	-	3,442
IMPACT OF HEDGING TRANSACTIONS	**3,870**	**(33,385)**	**(37,255)**	**(32,283)**	**(4,972)**
4 – Measurement of other investments in equity instruments at fair value	-	-	-	-	-
TOTAL	**3,870**	**(33,385)**	**(37,255)**	**(32,283)**	**(4,972)**

(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 2017, was €9.3 million. In H1 2018, around 73% of the positive change in fair value attached to the order book and commercial tenders at the end of 2017 was transferred from equity to income, under “Group 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 2017, which were fully or partially unwound or converted into receivables during H1 2018.

This corresponds mainly to the hedges of receivables in US dollars, which represented nearly all the hedges with an impact on equity as at 31 December 2017.

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

31/12/2017	Other borrowings	Cash
Fixed rate on date granted	2,381,008	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,381,008**	
Variable rate	**182,331**	**1,021,035**
TOTAL	**2,563,339**	**1,021,035**

30/06/2018	Other borrowings	Cash
Fixed rate on date granted	2,715,025	-
Variable rate on date granted swapped to fixed rate	-	-
Fixed rate	**2,715,025**	-
Variable rate	**138,411**	**918,905**
TOTAL	**2,853,436**	**918,905**

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% for the other;
- on 30 September 2014, a €500 million bond issue, maturing in September 2024, with a fixed annual coupon of 2.25%;
- on 27 September 2017, a €250 million bond issue, consisting of Bonds Convertible into New Shares and/or Exchangeable for Existing Shares, maturing in October 2022, with a fixed annual coupon of 4.125%, a 37.5% conversion premium and a 6.89 strike;
- on 11 October 2017, Vallourec issued a €400 million bond, which received a matching contribution on 23 October 2017 in the amount of €150 million (i.e. €550 million in total) maturing in October 2022 with a fixed annual coupon of 6.625%. This bond is callable pursuant to the contractual terms as from 15 October 2020;
- on 19 April 2018, a €400 million bond issue, maturing in October 2023, with a fixed annual coupon of 6.375%. This bond is callable pursuant to the contractual terms as from 15 October 2020;
- outstanding commercial paper in the amount of €337 million.

Furthermore, in December 2009, Vallourec Soluções Tubulares do Brasil took out a loan with BNDES (Banco National de Desenvolvimento Econômico e Social). This 4.5% fixed-rate loan was repaid in January 2018. Vallourec Soluções Tubulares do Brasil also concluded a fixed-rate finance lease in 2010.

As at 30 June 2018, financial debt exposed to changes in variable interest rates was €138.4 million (about 5% of total gross debt).

No significant line of fixed-rate financing will reach contractual maturity during the 12 months after 30 June 2018, except for:

- €337 million in outstanding commercial paper maturing in more than one year;
- the JP Morgan bilateral line at Vallourec Star in the amount of €68.6 million;
- €34 million for various lines of financing in the Group’s 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 €1.4 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 2018, 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 €2.6 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 (-€678.6 million as at 30 June 2018) which, in recent years, have been linked mainly to changes in the US dollar and Brazilian real.

Foreign currency translation reserve – Group share	31/12/2017	30/06/2018
USD	193,059	226,978
GBP	(12,107)	(12,040)
BRL	(738,432)	(891,970)
CNY	19,532	21,921
Other	(26,513)	(23,489)
TOTAL	**(564,461)**	**(678,600)**

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 32% of Group revenue in 30 June 2018) 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 phenomenon on sales prices denominated in US dollars, which is 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,

3) the new industrial footprint allows exchange rate changes to be better taken into account when allocating production flows.

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 €72 million decrease or increase in the intrinsic value recognized in consolidated equity as at 30 June 2018. 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 2018, 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 31/12/2017	As at 30/06/2018
Forward exchange contract: forward sales	805,754	949,101
Forward exchange contract: forward purchases	64,563	64,994
Currency options: sales	-	-
Currency options: purchases	-	-
Raw materials and energy: call options	-	-
TOTAL	**870,317**	**1,014,095**

Contract maturities as at 30 June 2018

Contracts on commercial transactions	Total	< 1 year	1 to 5 years	> 5 years
Forward exchange contract: forward sales	949,101	880,999	68,102	-
Forward exchange contract: forward purchases	64,994	64,994	-	-
Currency options: sales	-	-	-	-
Currency options: purchases	-	-	-	-
Raw materials and energy: call options	-	-	-	-
TOTAL	**1,014,095**	**945,993**	**68,102**	**-**

Forward sales (€949 million of the €1,014 million total) correspond mainly to sales of US dollars. These contracts were transacted at an average forward EUR/USD rate of 1.22 and an average forward USD/BRL rate of 3.42.

In 2018, as in 2017, 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 to hedges on commercial transactions, Vallourec has implemented hedging contracts for financial loans and receivables denominated in foreign currencies since 2011:

- forward sales for USD 197.4 million (€165.7 million);
- forward sales for CNY 235.0 million (€29.5 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 2018, 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 on financial assets for which no impairment provision has been made and for which non-recovery 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 2018, 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 €29 million as at 30 June 2018, or 4.6% 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 2018, trade receivables not yet due amounted to €534,8 million, or 83.9% of total net trade receivables.

The following table provides an analysis by maturity of these trade receivables:

As at 30/06/2018	0 to 30 days	30 to 60 days	60 to 90 days	90 to 180 days	> 180 days	Total
Trade receivables outstanding	401,047	80,459	19,406	29,566	4,323	534,801

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 2018 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 98,593 shares, comprised of:

- 155 treasury shares acquired in 2011 under the share buyback plan of 7 June 2011, after 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, 54,871 shares in 2017, and 10 shares in 2018 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 2016 under the various performance share plans;
- 97,307 treasury shares acquired in 2014 after the definitive allocation of 128,689 shares in 2017 and 74,004 shares in 2018 for 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.

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:

30/06/2018	Notes	Category (a)	Gross value as at 30/06/2018	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	**4**					
Listed equity interests		FVOCI	-	-	-	-
Other equity interests		FVOCI	5,430	-	5,430	-
Loans		AC	26,751	26,751	-	-
Other financial assets		AC	39,694	39,694	-	-
Trade and other receivables	**7**	**AC**	**667,190**	**667,190**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	1,262	-	1,262	-
Hedging financial instruments (b)		A-FVTPL	1,978	-	-	1,978
Speculative financial instruments		A-FVTPL	87	-	-	87
Other current assets	**9**	**AC**	**228,413**	**228,413**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**918,905**	**-**	**-**	**918,905**
LIABILITIES						
Bank loans and other borrowings (c) (d)	**16**	**AC-EIR**	**123,455**	**123,455**	**-**	**-**
Other	**16**	**AC-EIR**	**554,040**	**554,040**	**-**	**-**
Finance leases	**16**	**AC-EIR**	**54,462**	**54,462**	-	-
Bond issues	**16**	**AC-EIR**	**2,112,876**	**2,112,876**	-	-
Overdrafts and other short-term borrowings	**16**	**AC-EIR**	**8,603**	**8,603**	**-**	**-**
Trade and other payables		**AC**	**575,064**	**575,064**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	16,958	-	16,958	-
Hedging financial instruments (b)		L-FVTPL	3,447	-	-	3,447
Speculative financial instruments		L-FVTPL	-	-	-	-
Other current liabilities	**20**	**AC**	**300,949**	**300,949**	**-**	**-**

(a) A-FVTPL Financial assets measured at fair value through profit or loss,
AC: Amortized cost.
FVOCI: Fair value through other comprehensive income.
CFH: Cash flow hedges.
L-FVTPL: Financial liabilities measured at fair value through profit or loss.
AC-EIR: Amortized cost according to the effective interest rate method.

(b) Hedges of foreign currency receivables and payables.

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

(d) 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.

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.).

30/06/2018 Statement of financial position headings and classes of instruments	Category	Total fair value on statement of financial position	Fair value: Listed prices (A)	Fair value: Internal model with observable inputs (B)	Fair value: Internal model with unobservable inputs
ASSETS					
Listed equity interests	FVOCI		-	-	-
Other equity interests	FVOCI	5,430	-	5,430	-
Derivatives – assets					
Hedging financial instruments	CFH	1,262	-	1,262	-
Speculative financial instruments	A-FVTPL	87	-	87	-
Cash and cash equivalents	**A-FVTPL**	**918,905**	**918,905**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	16,958	-	16,958	-
Speculative financial instruments	L-FVTPL	-	-	-	-

31/12/2017	Notes	Category [a]	Gross value as at 31/12/2017	Amortized cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current assets	4					
Listed equity interests		FVOCI	-	-	-	-
Other equity interests		FVOCI	5,745	-	5,745	-
Loans		AC	21,709	21,709	-	-
Other financial assets		AC	35,922	35,922	-	-
Trade and other receivables	**7**	**AC**	**569,206**	**569,206**	**-**	**-**
Derivatives – assets	**8**					
Hedging financial instruments		CFH	12,478	-	12,478	-
Hedging financial instruments [b]		A-FVTPL	18,556	-	-	18,556
Speculative financial instruments		A-FVTPL	1,417	-	-	1,417
Other current assets	**9**	**AC**	**230,612**	**230,612**	**-**	**-**
Cash and cash equivalents	**10**	**A-FVTPL**	**1,021,035**	**-**	**-**	**1,021,035**
LIABILITIES						
Bank loans and other borrowings [c] [d]	**16**	**AC-EIR**	**137,279**	**137,279**	**-**	**-**
Other	**16**	**AC-EIR**	**634,566**	**634,566**	**-**	**-**
Finance leases	**16**	**AC-EIR**	**65,874**	**65,874**	-	-
Bond issues	**16**	**AC-EIR**	**1,714,908**	**1,714,908**	-	-
Overdrafts and other short-term borrowings	**16**	**AC-EIR**	**10,712**	**10,712**	**-**	**-**
Trade and other payables		**AC**	**581,622**	**581,622**	**-**	**-**
Derivatives – liabilities	**8**					
Hedging financial instruments		CFH	4,592	-	4,592	-
Hedging financial instruments [b]		L-FVTPL	8,302			8,302
Speculative financial instruments		L-FVTPL		-	-	-
Other current liabilities	**20**	**AC**	**305,881**	**305,881**	**-**	**-**

(a) A-FVTPL Financial assets measured at fair value through profit or loss,

AC: Amortized cost.

FVOCI: Fair value through other comprehensive income.

CFH: Cash flow hedges.

L-FVTPL: Financial liabilities measured at fair value through profit or loss.

AC-EIR: Amortized cost according to the effective interest rate method.

(b) Hedges of foreign currency receivables and payables.

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

(d) 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.

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.).

31/12/2017 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	FVOCI	-	-	-	-
Other equity interests	FVOCI	5,745	-	5,745	-
Derivatives – assets					
Hedging financial instruments	CFH	31,034	-	31,034	-
Speculative financial instruments	A-FVTPL	1,417	-	1,417	-
Cash and cash equivalents	**A-FVTPL**	**1,021,035**	**1,021,035**	**-**	**-**
LIABILITIES					
Derivatives – liabilities					
Hedging financial instruments	CFH	12,894	-	12,894	-
Speculative financial instruments	L-FVTPL	-	-	-	-

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 31/12/2017	**3,864**	**95,692**	**43,637**	**38,004**	**49,415**	**230,612**
Impact of changes in exchange rates	(203)	(7,792)	(724)	(3,524)	(462)	(12,705)
Provision allowances or reversals	-	-	-	-	(722)	(722)
Other changes	6,779	9,101	(7,976)	1,137	2,187	11,228
AS AT 30/06/2018	**10,440**	**97,001**	**34,937**	**35,617**	**50,418**	**228,413**

NOTE 10 Cash and cash equivalents

	Investment securities (gross)	Cash and cash equivalents	Total
As at 31/12/2017	**805,367**	**215,668**	**1,021,035**
Impact of changes in exchange rates	(26,482)	666	(25,816)
Reclassification to assets held for sale and discontinued operations (see Note 11)	-	(9,728)	(9,728)
Other changes	(51,017)	(15,569)	(66,586)
AS AT 30/06/2018	**727,868**	**191,037**	**918,905**

"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.

€9 million reclassified to assets held for sale concerned the sale of Vallourec Drilling France (plants in Cosne-Cours-sur-Loire and Tarbes).

NOTE 11 Assets held for sale and discontinued operations

Net values	31/12/2017	Sale	Reclassification for the period	30/06/2018
Assets held for sale and discontinued operations	64,119	(62,026)	6,880	8,973
Liabilities held for sale and discontinued operations	(12,654)	12,654	(14,024)	(14,024)
TOTAL	**51,465**	**(49,372)**	**(7,144)**	**(5,051)**

These assets and liabilities are as follows:

	31/12/2017	Sale	Reclassification for the period	30/06/2018
Non-current assets	19,100	(17,007)	2,095	4,188
Current assets	45,019	(45,019)	4,785	4,785
Non-current liabilities	(1,654)	1,654	(1,425)	(1,425)
Current liabilities	(11,000)	11,000	(12,599)	(12,599)
NET CARRYING AMOUNT OF ASSETS/LIABILITIES HELD FOR SALE	**51,465**	**(49,372)**	**(7,144)**	**(5,051)**

During this half, Vallourec finalized the sales of the Vallourec Drilling Products activity to the American Group NOV for €51 million.

On 2 July 2018, Vallourec finalized the sale of Vallourec Drilling France (plants in Cosne-Cours-sur-Loire and Tarbes) to Altifort. As at 30 June 2018, the associated assets and liabilities were measured at fair value and reclassified under assets/liabilities held for sale.

NOTE 12 Change in cash flows

Change in working capital

Gross values	31/12/2017	Translation difference	Change	Reclassification and other	30/06/2018
Inventories	1,183,837	(23,312)	164,850	(31,145)	1,294,299
Trade receivables	603,653	(9,991)	105,811	(6,085)	693,388
Trade payables	(581,622)	1,234	(5,973)	11,297	(575,064)
Other receivables an payables	(70,877)	1,554	(16,942)	12,343	(73,922)
Gross working capital (1)	**1,134,991**	**(30,515)**	**247,746**	**(13,590)**	**1,338,632**
Impact of hedging instruments (2)			**(11,908)**		
TOTAL (1) + (2)			**235,838**		
Change in working capital in the statement of cash flows			(235,838)		

Change in financial liabilities

	31/12/2017	Translation difference	Proceeds drawn from new borrowings	Repayments of borrowings	Current/ non-current reclassifications and other	30/06/2018
Non-current financial liabilities	1,817,119	(10,796)	398,417	(877)	(6,643)	2,197,220
Current financial liabilities	746,220	(21,278)	417,987	(507,380)	20,667	656,216
Financial liabilities (1)	**2,563,339**	**(32,074)**	**816,404**	**(508,257)**	**14,024**	**2,853,436**
Impact of hedging instruments and other (2)			**1,063**	**(25)**		
TOTAL (1) + (2)			**817,467**	**(508,282)**		
Change in financial liabilities in the statement of cash flows			817,467	(508,282)		

NOTE 13 Equity

Capital

Vallourec's issued capital is comprised of 457,987,760 ordinary shares with a nominal value of €2 per share, fully paid-up.

Reserves, financial instruments

Under IAS 39 "Financial Instruments", postings to these reserve accounts 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 31/12/2017	**193,059**	**(12,107)**	**(738,432)**	**19,532**	**(26,513)**	**(564,461)**
Change	33,919	67	(153,538)	2,389	3,024	(114,139)
AS AT 30/06/2018	**226,978**	**(12,040)**	**(891,970)**	**21,921**	**(23,489)**	**(678,600)**

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
31/12/2017				
Average rate	1.13	0.88	3.61	7.63
Reporting date rate	1.20	0.89	3.97	7.80
H1 2018				
Average rate	1.21	0.88	4.14	7.71
Reporting date rate	1.17	0.89	4.49	7.72

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 2017	H1 2018
Net income (loss) attributable to ordinary shareholders for basic earnings per share	**(253,695)**	**(306,569)**
Weighted average number of ordinary shares for basic earnings per share	451,238,005	457,987,760
Weighted average number of treasury shares for basic earnings per share	(2,760,238)	(140,882)
Weighted average number of shares for earnings per share	448,477,767	457,846,878
EARNINGS PER SHARE *(in €)*	**(0.6)**	**(0.7)**
Dilution effect – share purchase and subscription options and performance shares	924,555	-
Weighted average number of ordinary shares for diluted earnings per share	449,402,322	457,846,878
DILUTED EARNINGS PER SHARE *(in €)*	**(0.6)**	**(0.7)**

Dividends paid during the year	H1 2017	H1 2018
■ for the previous fiscal year	-	-

NOTE 15 Non-controlling interests

	Reserves	Translation difference	Net income	Total
As at 31/12/2017	454,300	27,283	(23,038)	458,545
AS AT 30/06/2018	**430,971**	**18,213**	**(2,679)**	**446,505**

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 revolving credit facility for the 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, which was then raised to €1.034 million in July 2017. The new maturity date is in 2021. This credit line is available for the Group's general funding purposes. As at 30 June 2018 this line had not been drawn.

In June 2015, Vallourec agreed to 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 2018 this line had not 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, with the maturity date 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 2018 this line had not been drawn.

In May 2016, Vallourec took out a revolving credit line for €450 million maturing in February 2020. As at 30 June 2018 this line had not been drawn.

In May 2018, Vallourec took out a credit line for €110 million with the European Investment Bank maturing in April 2027. This line of credit is available to finance the Group's Research & Development, and Digitization projects. As at 30 June 2018 this line had not been drawn.

Each of these bank facilities requires Vallourec to maintain its consolidated net debt-to-equity ratio at no more than 100%, calculated as at 31 December each year. In the event of non-compliance with this ratio requirement, lenders would be entitled to demand early repayment of the outstanding drawn amounts. Vallourec was in compliance with this ratio requirement as at 31 December 2017. 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 remeasurements (foreign currency gains and losses of consolidated subsidiaries).

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 2018, Vallourec had an outstanding debt of €337 million for maturities of up to one year. This commercial paper program is rated B by Standard & Poor's.

In August 2012, Vallourec 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% for the other.

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

On 27 September 2017, Vallourec issued a €250 million bond issue, consisting of Bonds Convertible into New Shares and/or Exchangeable for Existing Shares, maturing in October 2022, with a fixed annual coupon of 4.125%, a 37.5% conversion premium and a 6.89 strike.

On 11 October 2017, Vallourec issued a €400 million bond, which received a matching contribution on 23 October 2017 in the amount of €150 million (i.e. €550 million in total) maturing in October 2022 with a fixed annual coupon of 6.625%. This bond is callable pursuant to the contractual terms as from 15 October 2020.

On 19 April 2018, Vallourec issued a €400 million bond, maturing in October 2023, with a fixed annual coupon of 6.375%. This issue will be used to refinance the €400 million bond issue maturing on 2 August 2019. This bond is callable pursuant to the contractual terms as from 15 October 2020. As at 30 June 2018, the market value of these fixed-rate bonds was €407.4 million, €61.5 million, €523.1 million, €552.0 million and €402.5 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 financial 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 2018, the Group complied with its commitments 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 as at 30 June 2018.

In Brazil

In 2010, Vallourec Soluções Tubulares do Brasil entered into 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 2018, the residual amount of this finance lease was BRL 269 million.

In the United States

Vallourec Star benefits from a bilateral bank line of credit established in 2016 for a total amount of USD 80 million. The amount used as at 30 June 2018 totaled USD 80 million. This line contains clauses relating to the indebtedness of Vallourec Star and a change of control clause.

Financial liabilities – Non-current liabilities

	Bank borrowings	Finance Lease	Convertible bond issue	Non convertible bond issue	Other borrowings	Total
As at 31/12/2017	**35,062**	**65,874**	**222,252**	**1,492,656**	**1,275**	**1,817,119**
New debt	449	-	2,520	395,448	-	398,417
Repayments	(98)	(135)	-	-	(644)	(877)
Current/non-current reclassifications	(2,278)	(4,354)	-	-	(22)	(6,654)
Impact of changes in exchange rates	(3,873)	(6,923)	-	-	-	(10,796)
Other changes	-	-	-	-	11	11
AS AT 30/06/2018	**29,262**	**54,462**	**224,772**	**1,888,104**	**620**	**2,197,220**

Financial liabilities – Current liabilities

	Bank overdrafts	Bond issue	Bank borrowings (< 1 year)	Accrued interest on bank borrowings	Other financial liabilities (< 1 year)	Total
As at 31/12/2017	**10,712**	**-**	**102,217**	**19,038**	**614,253**	**746,220**
Impact of changes in exchange rates	37	-	1,676	3	(22,994)	(21,278)
Current/non-current reclassifications	-	-	2,278	-	4,376	6,654
Reclassification to assets held for sale and discontinued operations (see Note 11)	-	-	-	-	(3,805)	(3,805)
Other changes	(2,146)	-	(11,978)	18,860	(76,311)	(71,575)
AS AT 30/06/2018	**8,603**	**-**	**94,193**	**37,901**	**515,519**	**656,216**

Debt by currency

	USD	EUR	BRL	Other	Total
As at 31/12/2017 *(in thousands of currency unit)*	336,267	2,136,553	449,903	n/a	n/a
As at 31/12/2017 *(in € thousands)*	280,386	2,136,553	113,243	33,157	2,563,339
As at 30/06/2018 *(in thousands of currency unit)*	**276,521**	**2,493,820**	**419,375**	**n/a**	**n/a**
AS AT 30/06/2018 *(in € thousands)*	**237,194**	**2,493,820**	**93,452**	**28,970**	**2,853,436**

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 31/12/2017	**413,043**	**12,287**	**13,638**	**780,004**	**598,147**	**1,817,119**
Finance leases	8,257	8,219	8,256	8,297	21,433	54,462
Other non-current financial liabilities	402,852	2,329	3,875	772,160	961,542	2,142,758
AS AT 30/06/2018	**411,109**	**10,548**	**12,131**	**780,457**	**982,975**	**2,197,220**

Breakdown by maturity of current loans and other financial liabilities

	< 3 months	> 3 months and < 1 year	Total
Bank borrowings	25,053	77,164	102,217
Other borrowings	378,362	203,202	581,564
Finance lease liabilities	26,373	6,159	32,532
Accrued interest on borrowings	287	18,751	19,038
Bank overdrafts (negative cash and cash equivalents)	10,795	74	10,869
As at 31/12/2017	**440,870**	**305,350**	**746,220**
Bank borrowings	20,692	73,502	94,194
Other borrowings	313,055	193,838	506,893
Finance lease liabilities	4,068	4,204	8,272
Accrued interest on borrowings	13,951	23,950	37,901
Bank overdrafts (negative cash and cash equivalents)	8,101	855	8,956
AS AT 30/06/2018	**359,867**	**296,349**	**656,216**

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	514,244	1,286,715	580,049	-	2,381,008
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	514,244	1,286,715	580,049	-	2,381,008
Variable rate	7,399	90,000	11,480	73,452	182,331
As at 31/12/2017	**521,643**	**1,376,715**	**591,529**	**73,452**	**2,563,339**
Fixed rate on date granted	849,695	900,471	964,859	-	2,715,025
Variable rate on date granted swapped to fixed rate	-	-	-	-	-
Fixed rate	849,695	900,471	964,859	-	2,715,025
Variable rate	576	68,622	9,192	60,021	138,411
AS AT 30/06/2018	**850,271**	**969,093**	**974,051**	**60,021**	**2,853,436**

Debt contracted at a rate higher than 6% relates to bond issues of €550 million and €400 million, and 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

Non current liabilities	Provisions for environmental risks	Reorganization measures	Tax risks (income and other taxes, inspections, etc.)	Others	Total
As at 31/12/2017	**14,182**	**14,557**	**14,873**	**6,940**	**50,552**
Provisions for the period	324	4,000	73	258	4,655
Provisions used	(72)	(3,002)	(72)	(1,502)	(4,648)
Impact of changes in exchange rates	(1,643)	12	(1,736)	76	(3,291)
Other	-	(3,370)	389	(100)	(3,081)
AS AT 30/06/2018	**12,791**	**12,197**	**13,527**	**5,672**	**44,187**

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 31/12/2017	**27,889**	**37,285**	**48,355**	**219**	**35,051**	**148,799**
Provisions for the period	6,973	37,881	17,784	-	12,021	74,659
Provisions used	(7,391)	(45,493)	(9,751)	-	(3,443)	(66,078)
Other reversals	(1,363)	-	(3,700)	-	-	(5,063)
Impact of changes in exchange rates	(1,511)	(436)	(2)	-	(3,491)	(5,440)
Other	-	8,754	2,841	-	(384)	11,211
AS AT 30/06/2018	**24,597**	**37,991**	**55,527**	**219**	**39,754**	**158,088**

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, 2016, and 2018, 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, etc.

Additional restructuring measures taken in France in the first half resulted in the recording of a new provision of approximately €21.5 million.

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.

NOTE 18 Other long-term liabilities

As at 31/12/2017	**10,571**
Impact of changes in exchange rates	77
Other changes	(857)
AS AT 30/06/2018	**9,791**

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

NOTE 19 Employee benefits

	Germany	France	United Kingdom	Other	Total
As at 30/06/2018					
Present value of the obligation	**323,939**	**35,790**	**109,010**	**87,312**	**556,051**
Retirement benefits	252,438	34,283	109,010	87,312	483,043
Early retirement commitments	54,660	-	-	-	54,660
Long-service awards and medical benefits	16,841	1,507	-	-	18,348
Fair value of plan assets	(180,929)	(7,973)	(137,479)	(37,996)	(364,377)
NET LIABILITY/(ASSET)	**143,010**	**27,817**	**(28,469)**	**49,316**	**191,674**

Change in net liability

	Germany	France	United Kingdom	Other	Total
Net liability/(asset) as at 31/12/2017	**148,138**	**29,531**	**(25,546)**	**56,442**	**208,565**
Expense for the period	10,072	1,014	677	3,298	15,061
Amount recognized in Other comprehensive income – remeasurement	376	(335)	(1,852)	(5,339)	(7,150)
Benefits or contributions to funds	(15,576)	(416)	(1,735)	(2,145)	(19,872)
Impact of changes in exchange rates	-	-	-	(2,457)	(2,457)
Changes in scope and other	-	(1,977)	(13)	(483)	(2,473)
NET LIABILITY/(ASSET) AS AT 30/06/2018	**143,010**	**27,817**	**(28,469)**	**49,316**	**191,674**

As at 30 June 2018, the main commitments were reviewed to take into account the changes in the discount rate based on sensitivity analyses performed at 31 December 2017.

The significant hedge funds were valued at their fair value as at 30 June 2018.

Main actuarial assumptions	Germany	France	United Kingdom	Other
31/12/2017				
Discount rate	1.55%	1.55%	2.50%	from 3.6% to 9.58%
Actual return on plan assets	1.55%	1.55%	2.50%	from 3.6% to 9.58%
30/06/2018				
Discount rate	1.65%	1.65%	2.80%	from 4.10% to 10.35%
Actual return on plan assets	1.65%	1.65%	2.80%	from 4.10% to 10.35%

Expenses for the half year

Expenses incurred during the period 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:

Expenses for the half year	Germany	France	United Kingdom	Other	Total
As at 30/06/2018					
Current service cost	6,944	798	1,024	1,597	10,363
Interest expense	2,429	291	1,462	2,588	6,770
Actual return on plan assets	(1,401)	(63)	(1,809)	(708)	(3,981)
Actuarial losses/(gains) generated during the year	(273)	(8)	-	(179)	(460)
Impact of any reduction or liquidation [a]	2,373	(4)	-	-	2,369
NET CARRYING AMOUNT	**10,072**	**1,014**	**677**	**3,298**	**15,061**

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

Other employee benefits (options and performance shares)

SHARE SUBSCRIPTION PLANS

Share subscription plans

With regard to the characteristics of the plans agreed before 31 December 2017, reference is made to the Group's consolidated financial statements for the year ended 31 December 2017.

Change in number of unexpired options

In number of options

Total at beginning of period	**4,013,201**
Options exercised	-
Options lapsed	-
Options canceled	(546,465)
Options distributed	354,220
OPTIONS OUTSTANDING AS AT 30 JUNE	**3,820,956**
▪ Options available for exercise	2,209,332

The reported figures correspond to the number of options 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 the new plan introduced during the half-year (a)

	2018 Plan
Assumptions	
Share price at allocation date	€5.33
Volatility (b)	30.00%
Risk-free rate (c)	0.42%
Exercise price	€5.50
Dividend rate (d)	3.00%
Fair value of the option (e)	€1.02

(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 €1,02 for the 2018 plan.*

PERFORMANCE SHARE ALLOCATION PLANS

Characteristics of the plans

With regard to the characteristics of the plans agreed before 31 December 2017, reference is made to the Group's consolidated financial statements for the year ended 31 December 2017.

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	**2,208,468**
Shares delivered	(77,939)
Shares canceled	(642,201)
Shares allocated	842,630
NUMBER OF SHARES BEING VESTED AS AT 30 JUNE 2018	**2,330,958**

The reported figures correspond to the 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 2018 are as follows:

	2018 Plan
Share price at allocation date	€5.33
Risk-free rate [(a)]	-0.07% (France), -0.30% (foreign)
Dividend rate [(b)]	3.00%
Fair value of the option	€4.57 (French residents) or €4.72 (non-French residents)

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

(b) The expected dividend rates have been determined on the basis of analysts' expectations 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 31/12/2017	**196,570**	**33,620**	**21,007**	**1,597**	**53,087**	**305,881**
Impact of changes in exchange rates	(3,315)	(1,541)	(1,253)	1	(1,242)	(7,350)
Other changes	8,174	2,311	(9,743)	(184)	1,860	2,418
AS AT 30/06/2018	**201,429**	**34,390**	**10,011**	**1,414**	**53,705**	**300,949**

NOTE 21 Information on related parties

	Sales to related parties	Purchases from related parties	Related party receivables	Related party payables
As at 30/06/2018				
HKM	385	153,660	12	90,694
Ascoval	3,323	57,154	3,954	5,343

NOTE 22 Shareholder loan

Vallourec Soluções Tubulares do Brasil benefits from shareholder loans granted by NSSMC (with a nominal value of BRL 323 million as at 30 June 2018). These loans are subject to a maturity of BRL 176 million in the second half of 2018, with the remaining balance being gradually amortized until 2022.

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 2017	H1 2018
Europe	280,473	295,246
North America (NAFTA)	414,211	603,824
South America	314,537	317,469
Asia	557,768	527,019
Rest of the world	148,600	100,290
TOTAL	**1,715,589**	**1,843,848**

The application of IFRS 15 led to a reclassification of the income from patent royalties to revenue in the amount of €11 million during the first half of 2018 (see Note 26).

NOTE 24 Cost of sales

	H1 2017	H1 2018
Direct cost of sales	(98,525)	(108,728)
Cost of raw materials consumed	(597,754)	(681,872)
Labor costs	(423,413)	(374,444)
Other manufacturing costs	(468,770)	(501,397)
Change in non-raw material inventories	86,147	55,734
TOTAL	**(1,502,315)**	**(1,610,707)**
Depreciation and amortization	(150,614)	(134,488)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(1,652,929)**	**(1,745,195)**

NOTE 25 Sales, general and administrative costs

	H1 2017	H1 2018
Research and Development costs	(26,429)	(21,647)
Sales and marketing costs	(40,786)	(39,650)
General and administrative costs	(154,091)	(138,329)
TOTAL	**(221,306)**	**(199,626)**
Depreciation and amortization	(22,680)	(18,113)
TOTAL (INCLUDING DEPRECIATION AND AMORTIZATION)	**(243,986)**	**(217,739)**

Personnel expenses and closing headcount of consolidated companies

Personnel expenses	H1 2017	H1 2018
Wages and salaries	(421,786)	(386,182)
Employee profit-sharing	(12,579)	(9,507)
Expenses related to share subscription and share purchase options and performance shares	(1,632)	(1,248)
Social security costs	(106,617)	(108,291)
TOTAL	**(542,614)**	**(505,228)**

The amount of expenses relating to the share purchase options and performance share allocation plans, and the amount relating to retirement expenses is provided in Note 19.

Closing headcount of consolidated companies	31/12/2017	H1 2017	H1 2018
Managers	3,231	3,177	3,137
Technical and supervisory staff	3,048	3,076	2,853
Production staff	13,245	12,756	12,620
TOTAL	**19,524**	**19,009**	**18,610**

The decrease in workforce primarily reflects changes in consolidation scope during the period.

NOTE 26 Other

	H1 2017	H1 2018
Employee profit-sharing and bonuses	(14,601)	(7,231)
Fees for concessions and patents	11,895	207
Other income and expenses	(7,562)	(8,433)
TOTAL	**(10,268)**	**(15,457)**

Provision allowances, net of reversals	H1 2017	H1 2018
Provision allowances net of reversals included in EBITDA amounted to	22,269	14,110

The application of IFRS 15 led to income from patent royalties being reclassified under revenue.

NOTE 27 Accumulated depreciation and amortization

	H1 2017	H1 2018
By function		
Depreciation of industrial assets	(150,614)	(134,488)
Depreciation and amortization – Research and Development	(5,431)	(4,805)
Depreciation and amortization – Sales and Marketing Department contracts	(5,843)	(4,373)
Depreciation and amortization – General and administrative expenses	(11,406)	(8,935)
TOTAL	**(173,294)**	**(152,601)**
By type		
Net amortization of intangible assets (see Note 1)	(14,528)	(12,322)
Net depreciation of property, plant and equipment (see Note 2.1)	(155,689)	(135,803)
Net depreciation and amortization of biological assets	(3,077)	(4,476)
TOTAL	**(173,294)**	**(152,601)**

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

	H1 2017	H1 2018
Reorganization measures (net of expenses and provisions described in Note 17)	3,598	(28,833)
Gains and losses on disposals of non-current assets and other	(525)	(27,883)
TOTAL	**3,073**	**(56,716)**

	H1 2017	H1 2018
Impairment of intangible assets (see Note 1)	-	-
Impairment of property, plant and equipment (see Note 2.1)	(244)	(13,594)
Impairment of biological assets (see Note 2.2)	-	-
Other impairment of assets (see Note 6)	-	-
TOTAL	**(244)**	**(13,594)**

These non-recurring elements essentially relate to further restructuring measures undertaken in Europe in H1 2018.

NOTE 29 Financial income (loss)

	H1 2017	H1 2018
Financial income		
Income from investment securities	16,393	7,719
Income from disposals of investment securities	116	(249)
TOTAL	**16,509**	**7,470**
Interest expenses	**(79,617)**	**(90,763)**
Other financial income and expenses		
Income from securities	1,026	562
Income from loans and receivables	1,720	518
Exchange (losses) and gains and changes in premiums/discounts	(25,432)	(17,432)
Provision allowances, net of reversals	(757)	(693)
Other financial income and expenses	(7,467)	525
TOTAL	**(30,910)**	**(16,520)**
Other discounting expenses		
Interest expense pension obligations	(3,417)	(2,669)
Financial income from discounted assets and liabilities	(3,369)	(2,470)
TOTAL	**(6,786)**	**(5,139)**
FINANCIAL INCOME (LOSS)	**(100,804)**	**(104,952)**

As at 30 June 2017, financial result included an impairment of €13 million on NSSMC listed securities. The difference between the purchase price and the fair value at the reporting date was reclassified in the income statement, in view of the permanent nature of the impairment.

NOTE 30 Reconciliation of theoretical and actual tax expense

Breakdown of the tax expense	H1 2017	H1 2018
Current tax expense	(26,396)	(15,328)
Deferred taxes	44,633	15,333
NET EXPENSE	**18,237**	**5**
Consolidated net income (loss)	(271,332)	(309,800)
Tax expense	18,237	5
CONSOLIDATED NET INCOME (LOSS) BEFORE TAX	**(289,569)**	**(309,805)**
Statutory tax rate of consolidating company	34.43%	34.43%
Theoretical tax	99,699	106,666
Impact of main tax loss carryforwards	(58,869)	(89,963)
Long-term impact of capital gains or losses	1,205	879
Impact of permanent differences	(15,505)	(3,191)
Impact of differences in tax rates	(6,109)	(13,902)
Other impacts	(2,184)	(484)
NET EXPENSE	**18,237**	**5**
ACTUAL TAX RATE	**(6)%**	**0%**

The rate of 0% primarily reflects the non-recognition of deferred tax assets, as detailed below:

- the impact of tax loss carryforwards is analyzed through the non-recognition of deferred tax assets (DTAs) during the period which were recorded in the tax losses of the French tax consolidation group, in Germany, in a portion of the Chinese subsidiaries, and in the UK subsidiaries;
- ongoing differences primarily reflect the share of tax directly paid by the associates of US entities and the reintegration of financial expenses in France.

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 21%, 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 2017 and 2018.

Information on results, assets and liabilities by operating segment

H1 2018	Seamless tubes	Specialty products	Holdings & miscellaneous [(a)]	Inter-segment transactions	Total
Income statement					
Sales to external customers	1,826,984	16,415	449	0	1,843,848
EBITDA	42,286	(13,297)	(10,931)	0	18,058
Depreciation and amortization	(145,267)	(7,294)	(435)	395	(152,601)
Impairment of assets and goodwill	(13,594)	0	0	0	(13,594)
Asset disposals and restructuring costs	(53,489)	18	(3,245)	0	(56,716)
OPERATING INCOME (LOSS)	**(170,064)**	**(20,573)**	**(14,611)**	**395**	**(204,853)**
Unallocated income					7,470
Unallocated expenses					(112,422)
Pre-tax income					(309,805)
Income tax					5
Net income of associates					552
Consolidated net income					(309,248)
Statement of financial position					
Non-current assets	3,623,596	113,910	4,035,737	(4,035,154)	3,738,089
Current assets	1,977,410	44,697	120,919	(113,919)	2,029,107
Cash	324,182	165	1,254,542	(659,984)	918,905
Assets held for sale and discontinued operations	8,973				8,973
TOTAL ASSETS	**5,934,161**	**158,772**	**5,411,198**	**(4,809,057)**	**6,695,074**
Cash flows investments					
Property, plant and equipment, intangible assets and biological assets	32,768	426	78		33,272

(a) Vallourec and Vallourec Tubes.

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					16,509
Unallocated expenses					(117,313)
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	45,996	4,570	-	-	50,566

(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 2018	Europe	North America	South America	Asia	Rest of the world	Total
Revenue						
Sales to external customers	295,246	603,824	317,469	527,019	100,290	1,843,848
Statement of financial position						
Property, plant and equipment, intangible assets and biological assets (net)	570,542	1,423,953	930,581	339,622	281	3,264,979
Cash flows						
Property, plant and equipment, intangible assets and biological assets	16,568	5,501	6,068	5,069	66	33,272

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 & 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

NOTE 32 Contingent liabilities and commitments

Off-statement of financial position commitments received (excluding financial instruments)	31/12/2017	30/06/2018
Firm non-current assets orders	4,449	5,216
Guarantees and commitments received	89,247	86,178
Other commitments received	11,180	10,747
TOTAL	**104,876**	**102,141**
Off-statement of financial position commitments given (excluding financial instruments)	**463,527**	**422,510**

Commitments given by maturity:

	30/06/2018	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,197,220	-	1,214,245	982,975
Off-statement of financial position				
Market guarantees and letters of credit given	97,076	69,964	27,112	-
Other securities, mortgages and pledges given	104,071	-	1,710	102,361
Long-term lease	133,449	21,938	60,904	50,607
Firm asset orders given	5,216	5,188	28	-
Other obligations	82,698	55,088	25,919	1,691
TOTAL	**422,510**	**152,178**	**115,673**	**154,659**

	31/12/2017	< 1 year	> 1 year	> 5 years
Statement of financial position				
Long-term financial liabilities	2,563,339	746,220	1,218,972	598,147
Off-statement of financial position				
Market guarantees and letters of credit given	106,484	69,123	37,361	-
Other securities, mortgages and pledges given	117,721	-	2,051	115,670
Long-term lease	146,614	22,155	67,983	56,476
Firm asset orders given	4,449	4,167	282	-
Other obligations	88,259	68,642	17,707	1,910
TOTAL	**463,527**	**164,087**	**125,384**	**174,056**

NOTE 33 Subsequent events

On 2 July 2018, Vallourec finalized the sale of Vallourec Drilling France (plants in Cosne-Cours-sur-Loire and Tarbes) to Altifort.

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

For the period from 1 January to 30 June 2018

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 1 January to 30 June 2018;
- 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. 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.

Paris La Défense, 24 July 2018

The Statutory Auditors,

Deloitte & Associés

Christophe Patrier

KPMG Audit

Département de KPMG SA
Alexandra Saastamoinen

Design and production: côtécorp.

Tel.: +33 (0)1 55 32 29 74

Cover: havas Paris

REGISTERED OFFICE

27, avenue du Général-Leclerc
92100 Boulogne-Billancourt (France)
552 142 200 RCS Nanterre

Tel.: +33 (0)1 49 09 35 00
Fax: +33 (0)1 49 09 36 94

WWW.VALLOUREC.COM

A French limited company (société anonyme)
with Management and Supervisory Boards and issued capital of €915,975,520